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# **The Middle Corridor: UK's Strategic Trade Opportunities in Eurasia**

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## Executive Summary

Trade between China and Europe, a linchpin in the architecture of the global economy, has traditionally been dominated by maritime routes. The 21st century saw the development of Western China, Central Asia, the Caucasus, Eastern Europe and Turkey - with many a landlocked nation within these regions - predetermining the development of land trade routes. Yet, it was the turbulent wave of the COVID-19 pandemic that ushered in a significant shift, disrupting sea shipping, building on the 21st century development of the Central Asian increasing and catalysing a renewed reliance on the arteries of land routes. The Trans-Eurasian rail networks, particularly the Northern Corridor via Russia, emerged as critical conduits due to their expedited transit times. However, the unfolding geopolitical tensions and a burgeoning desire to diversify trade routes have magnified the strategic importance of the Middle Corridor. This alternative pathway, circumventing Russia and threading through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and Turkey into the heart of Europe, resonates deeply with the UK's strategic and economic aspirations, presenting a plethora of benefits and adeptly addressing the current global trade challenges.

Kazakhstan, ensconced at the heart of Eurasia, ascends as a pivotal transit hub, undergirded by significant infrastructure investments such as the Khorgos Gateway. The evolution of the Middle Corridor heralds the promise of diminished transit times, augmented trade volumes, and the fostering of regional economic integration. Despite grappling with bureaucracy and local corruption, Kazakhstan's investment landscape is burgeoning, bolstered by its rich natural resources and governmental incentives designed to attract foreign capital.

The UK's strategic engagement with the Middle Corridor is emblematic of its post-Brexit vision to sculpt a "Global Britain," a nation unrestrained by its historical anchors and looking outward, expanding its reach across the globe. By investing in this route, the UK not only enhances its trade connectivity and diminishes its reliance on Russian-dominated pathways but also champions regional stability through the subtle art of soft diplomacy. Additionally, the environmental virtues of rail transport over maritime shipping echo the UK's commitment to sustainability, marking a stride towards environmental stewardship.

Furthermore, Kazakhstan's initiatives, including the pioneering Astana International Financial Centre which embraces English common law, significantly elevate its allure for UK investment. By backing the Middle Corridor, the UK not only fortifies its economic interests but also kindles the flames of democratic values and regional stability, weaving these principles into the fabric of its foreign engagements. This strategic pivot not only situates the UK as a formidable player on the global stage but also underscores its commitment to fostering a landscape where commerce and democratic ideals flourish side by side.

## Main Takeaways:

- **Environmental Advantages:** Rail transport's energy efficiency and lower carbon emissions align with the UK's sustainability goals, offering a greener alternative to maritime shipping.
- **Infrastructure Investments:** Significant investments in infrastructure, such as the Khorgos Gateway, enhance the efficiency of the Middle Corridor, reducing transit times and boosting trade volumes.
- **Geopolitical and Economic Benefits:** The Middle Corridor mitigates geopolitical risks associated with Russian routes and supports the UK's post-Brexit strategy to diversify trade routes and enhance global connectivity.
- **Strategic Position:** Kazakhstan's central location in Eurasia makes it a key transit hub, offering a shorter and more stable trade route compared to traditional maritime and Northern Corridor routes.
- **Investment Potential:** Kazakhstan's investment climate, bolstered by initiatives like the Astana International Financial Centre (AIFC) and governmental incentives, presents substantial opportunities for UK businesses in sectors like energy, mining, and infrastructure.

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## Foreword by Ahmad Alili, Director at Caucasus Policy Analysis Centre

The Middle Corridor project presents an opportunity to shape the geopolitical and geoeconomic future of the broader Eurasian continent. Among its many benefits, it has the potential to stabilise the European security architecture, enable Central Asian nations to access the international market through alternative routes that are not controlled by any geopolitically motivated actor, and enhance the presence of the UK, US, EU, and Türkiye in the South Caucasus, Caspian Sea basin, and Central Asia.

The European security architecture established during the Cold War era has disappeared. Two recent conflicts involving OSCE member countries, the Armenia-Azerbaijani conflict over Karabakh and the ongoing Russia-Ukraine war, act as clear calls for creating a new security framework in the broader Eurasian region. Both challenges to European and transatlantic security have arisen in the post-Soviet states. Therefore, it is time for a new ‘Ostpolitik’ from the European Political Community (EPC) members. The Middle Corridor project perfectly aligns with this new role, providing a novel interaction mechanism between the EPC and Russia in the South Caucasus, Caspian Sea basin, and Central Asia.

The Middle Corridor project can act as a successor not only to ‘Ostpolitik’ but also to GU(U)AM (Georgia-Ukraine-(Uzbekistan)-Azerbaijan-Moldova), which was subsequently replaced by the Eastern Partnership (EaP) initiative. GU(U)AM, abbreviated to GUAM when Uzbekistan, the sole Central Asian member, withdrew from the initiative, was a strategic concept that emerged immediately following the collapse of the Soviet Union. At that point, all four nations had shared concerns about their territorial integrity, which was under threat of occupation or was being occupied. In the late 2000s, this initiative was superseded by the EU’s EaP, which incorporated two CSTO members (Common Security Treaty Organisation, a Russian-led military alliance), Armenia and Belarus, along with the GUAM countries. The inclusion of CSTO member countries has altered the strategic perspective of the broader Western presence in the region.

The Middle Corridor presents an ideal geopolitical and geoeconomic solution for Central Asian nations. These landlocked countries actively seek alternative pathways to access global markets, thereby enhancing their sovereignty. Currently, the options available to these regional countries are limited to Russia and China. The experiences of Azerbaijan and Georgia, which attracted Western (mainly UK and US) investment in the early 1990s and constructed the Baku-Tbilisi-Ceyhan oil pipeline, ultimately securing their strategic positions on the world stage, serve as a compelling case for Central Asian nations as well. Azerbaijan was the first post-Soviet country to accommodate Western investment (and geopolitical presence), which altered everything at that time. The Middle Corridor also represented an excellent opportunity for Armenia to seize the moment, which it missed in the 1990s due to its conflict with Azerbaijan. With the conclusion of the 2020 Karabakh war, Armenia now seeks to normalise its relations with Türkiye and Azerbaijan and open the Zangazur corridor, which might be a critical component of the Middle Corridor.

Implementing the Middle Corridor will enhance stability in European security and the broader Eurasian continent, providing economic, cultural, and environmental advantages. With this report, it is a great pleasure to witness the UK and its think tanks leading the effort to shape the understanding of this vital project, much like they did in the early 1990s when Azerbaijan and Georgia explored ways to bolster their strategic autonomy in the post-Soviet world.

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Dr Ahmad Alili, Director at Caucasus Policy Analysis Centre. Ahmad Alili is an expert in South Caucasus geopolitics, focusing on regional cooperation, energy security, and socio-economic development. He advises on foreign policy matters affecting the Caucasus and Eurasia, with a deep understanding of regional dynamics.

## Introduction

Trade between China and Europe is a substantial element of the global economy, incorporating extensive land and maritime routes. While the majority of this trade is traditionally conducted via sea routes, land connections, particularly the Trans-Eurasian rail networks, have become increasingly important due to their potential for faster transit times compared to ocean shipping. The ocean routes from China to Europe, relying on the Suez Canal and facing attacks from Yemen based militias offers a decreasingly viable pathway for trade.

The COVID-19 pandemic significantly impacted global shipping routes in 2020, leading to an increased reliance on land routes between China and Europe. Maritime shipping faced severe disruptions due to lockdowns, high freight costs, and a shortage of containers, which saw freight rates on key sea routes between Asia and Europe skyrocketing by up to 300%. In contrast, rail transport between China and Europe experienced a notable surge, with train journeys increasing by 50% from 2016, as manufacturers sought to circumvent delays in sea freight.<sup>1</sup> This shift was further emphasised by investments in rail infrastructure under the Belt and Road Initiative, making rail a more viable option during this period.

The volume of trade between China and Europe via land routes, notably through the Trans-Siberian Railway across Russia, is considerable. This northern route, commonly referred to as the Northern Corridor, is favoured due to its established rail links and relatively straightforward logistics, despite the longer distance compared to sea routes. Although exact figures vary, it is estimated that tens of billions of dollars worth of goods are transported annually via this corridor, encompassing a range of commodities from electronics to consumer goods.

Russia's geographical position makes it a central player in Eurasian land trade, as the Trans-Siberian route offers the most direct established land connection between China and Europe. However, the Russian war in Ukraine geopolitical tensions and a desire for route diversification have led to increased interest in alternative pathways. The UK and Europe need to make a decision whether to continue transcontinental trade through a belligerent nation to the detriment of national security or seek alternative pathways, strengthening and developing new partnerships, to gain diversification and security of trade routes.

The Middle Corridor presents such an alternative, bypassing Russia by passing through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and then into Turkey, extending into Europe. This route is part of the broader Trans-Caspian International Transport Route. Its development has been influenced by geopolitical considerations, aiming to mitigate risks associated with transiting through Russia, particularly in light of recent political tensions.

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1 Amighini, Alessia. "China's International Trade: Land vs Sea Routes," The Italian Institute for International Political Studies, March 29, 2021, <https://www.ispionline.it/en/publication/chinas-international-trade-land-vs-sea-routes-29827>.

The Middle Corridor, serving as a vital geopolitical and economic conduit between Central Asia and Europe, presents a significant opportunity to enhance Eurasian trade relations. This briefing evaluates the strategic role of Kazakhstan, a country experiencing notable economic growth and development, in bolstering the corridor's infrastructure and operational efficiency. It is crucial for the UK to lend robust support to this endeavour, thereby not only strengthening the economic linkage between East and West but also advancing mutual geopolitical interests.

The significance of the Middle Corridor has grown markedly due to shifts in global trade dynamics, exacerbated by Western sanctions that have curtailed much of the East–West trade previously routed through Russia. With Russia's ongoing war in Ukraine expected to persist, the attractiveness of the Middle Corridor for East–West trade has increased. Nations large and small along this route have shown a renewed commitment to reducing transit times through substantial investments in railway, port, and road infrastructure, and by streamlining border crossings. For instance, Georgia has garnered new interest from China due to its strategic location<sup>2</sup>, highlighting the corridor's potential to reshape regional economic landscapes.

Historically, China showed ambivalence towards the Middle Corridor, preferring the faster northern route through Russia which, despite its longer geographical distance, boasted superior rail infrastructure and fewer customs checks. However, the landscape changed in 2022 when container transit via the Middle Corridor surged by 33% from the previous year, as China redirected much of its EU-bound export traffic away from the northern route in response to Western sanctions.<sup>3</sup> This shift not only diversified trade routes but also balanced transit times with those of maritime routes constrained by limited port capacity in China and Europe.

This briefing underscores the Middle Corridor's role not only as a critical economic artery but also as a diplomatic tool in the UK's strategy to foster regional stability and counteract the influence of authoritarian regimes. By supporting the development of this corridor, the UK can enhance its influence in the region, promoting a stable and prosperous Eurasian trade network that aligns with democratic values and mutual economic interests.

Focusing on growth as a rallying point allows the UK to shift regional dynamics from the traditional narratives of power struggles to a new paradigm where mutual benefits and shared progress take precedence. This strategic shift can transform the Middle Corridor into a beacon of influence for democratic values in a region frequently dominated by authoritarian regimes and geopolitical conflicts.

By investing in and supporting the Middle Corridor, the UK can assert itself as a pivotal

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<sup>2</sup> Avdalani, E. Chinese Companies Are Reshaping Georgia's Geography. *Eurasia Daily Monitor*, 19(147), October 5, 2022, <https://jamestown.org/program/chinese-companies-are-reshaping-georgias-geography/>

<sup>3</sup> Robert M. Cutler. "World Bank Study Recalibrates Middle Corridor," *Asia Times*, December 11, 2023, <https://asiatimes.com/2023/12/world-bank-study-recalibrates-middle-corridor/>

player in promoting regional development. This commitment not only enhances the UK's diplomatic relationships across Central Asia and Europe but also consolidates its role as a promoter of economic advancement leading to greater stability and democratic governance. Such soft diplomacy initiatives enable the UK to counteract the influence of other powers whose agendas may not align with the democratic and peaceful development of the region.

Ultimately, the development of the Middle Corridor should be viewed not merely in terms of economic benefits but as a strategic endeavour to foster long-term peace, stability, and prosperity. By leading this initiative, the UK aids in the construction of critical infrastructure and also lays the foundation for a more democratic, stable, and prosperous regional order. This effort can profoundly influence the geopolitical landscape of Eurasia, positioning the Middle Corridor as a vital conduit for progress and a testament to the power of cooperative, inclusive growth over isolationist and aggressive tactics.

## 1. The Middle Corridor

The Middle Corridor, officially known as the Trans-Caspian International Transport Route (TITR), was conceptualised by Turkey in the late 1980s. This strategic initiative emerged as a transportation route extending from Turkey to China, gaining significance after the dissolution of the Soviet Union, which facilitated access to the newly independent states of Central Asia.

The Middle Corridor was envisioned to create a direct, containerised rail freight connection between China and the European Union. The route spans several key regions: starting in China, moving through Kazakhstan, traversing the Caspian Sea into Azerbaijan, and then into Georgia and Turkey. This pathway not only opens up new markets but also serves as a crucial link for goods transportation across continents.

At approximately 7,000 km in length, the Middle Corridor promises reduced transit times and a direct pathway that could foster greater economic integration between Asia and Europe. Its primary advantage is its potential to serve as a shorter and more efficient route compared to the traditional Northern Corridor, which is longer and passes through Russian territory. Trade volumes through the Middle Corridor have seen remarkable growth, driven by geopolitical shifts and strategic investments in infrastructure. Between 2020 and 2022, cargo shipments increased from approximately 350,000 tons to an impressive 3.2 million tons.<sup>4</sup> This surge is largely attributed to the geopolitical disruptions caused by Russia's invasion of Ukraine, which has redirected trade away from the Northern Corridor.

While the maritime journey from China to Europe can take upwards of 45 days, the Middle Corridor offers a more expedient alternative, potentially cutting this time by half, depending on the efficiency of border crossings and intermodal transfers. Moreover, it offers an alternative that could become increasingly valuable given geopolitical tensions, such as the ongoing Russian war in Ukraine, which have highlighted the need for diversified

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4 Donnellon-May, G. "Beijing's interest in the Middle Corridor". The Interpreter, October 26, 2023. <https://www.lowyinstitute.org/the-interpreter/beijing-s-interest-middle-corridor>

routes that avoid Russian territory.

The development of the Middle Corridor is anticipated to boost economic integration among the countries it passes through, such as Kazakhstan, Azerbaijan, and Georgia. By improving infrastructure and streamlining border procedures, the route can enhance trade flows and economic cooperation, thus contributing to regional development.

The Middle Corridor also holds the potential for increased trade diversification as it can facilitate trade to central Asia from Europe. By providing new logistics routes for cargo transportation, it allows countries in Central Asia and the Caucasus to access European markets directly, reducing their dependence on traditional routes through Russia or maritime routes involving the Middle East and Iran. This diversification can lead to a more balanced economic growth and greater resilience to geopolitical risks.

## Russian Influence in the Middle Corridor

Russia's strategic partnerships with Central Asian countries significantly bolster its dominance over Eurasian trade routes. The China-Kyrgyzstan-Uzbekistan railway project, a crucial component of China's Belt and Road Initiative (BRI), exemplifies this synergy, enhancing regional connectivity in ways that also serve Russian interests to control European trade and have a means to bypass sanctions. By facilitating the movement of goods across the region, this railway not only supports China's ambitious infrastructure goals but also integrates with Russia's broader strategy to control the Middle Corridor, a critical trade route traversing Central Asia<sup>5</sup> and divert the trade that would continue onto Turkey and the Caucasus back to Russia.<sup>6</sup> The Russian Middle Corridor plans also allow for greater sanction evasion, as while it gives the means for Chinese and other manufacturers to add mode distance between them and the sanctioned Russian entities importing sanctioned goods.

## Economic and Geopolitical Influence

Russia has been actively working to dominate the Middle Corridor by leveraging its geopolitical influence and economic resources. Moscow's diplomatic efforts are focused on fostering strong bilateral relationships with Central Asian nations such as Kyrgyzstan, and Uzbekistan. Through a combination of strategic investments, military cooperation, and cultural diplomacy, Russia seeks to reinforce its role as a pivotal player in regional trade dynamics. These efforts are evident in initiatives like the Eurasian Economic Union (EAEU), which aims to facilitate the free movement of goods, services, and capital among

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5 Fulton, Janet. "China's Belt and Road Initiative Is Poised to Transform the Clean Energy Industry." Brookings, December 14, 2022. <https://www.brookings.edu/articles/chinas-belt-and-road-initiative-is-poised-to-transform-the-clean-energy-industry/>

6 Papatolios, Nikos. "Kyrgyzstan-Russia Open New Transport Route, but What For?" RailFreight.com, July 4, 2023. <https://www.railfreight.com/railfreight/2023/07/04/kyrgyzstan-russia-open-new-transport-route-but-what-for/?gdpr=accept>.

member states, thus cementing Russia's economic influence in the region.<sup>7</sup>

Russian companies are heavily involved in the development of critical infrastructure in Uzbekistan and Kyrgyzstan, focusing on sectors such as railways, roads, and energy pipelines, which are essential for the efficient movement of goods and enhancing regional connectivity.

In Uzbekistan, Russian energy giants like Gazprom and Lukoil play a significant role. Gazprom has been involved in the country since 2002, with substantial investments in gas production and transportation. This includes projects like the development of the Shakhpakhty field and the establishment of strategic gas cooperation agreements, which have significantly increased the volume of gas exported from Uzbekistan to Russia. Over the course of 20 years of work in Uzbekistan, Lukoil has invested \$7.5 billion in projects in this country, focusing on projects under the terms of production sharing agreements – Kanlym – Khauzak-Shady and Gissar.<sup>8</sup> Russian investments act as more than mere business interests and can actively influence the politics, including foreign policy of the state. Uzbekistan's lobbying to lift sanctions from Putin's friends and pro-Kremlin oligarch Alisher Usmanov.<sup>9</sup>

In Kyrgyzstan, Russian investments are also prominent, particularly in the energy sector. Inter RAO UES, a major Russian energy company, is involved in the Kyrgyz energy market, investing in hydroelectric power projects. These projects, such as the Kambarata-1 hydropower plant, are crucial for Kyrgyzstan's energy supply. Additionally, Russian companies are participating in infrastructure development projects, including road construction and modernisation efforts, which are essential for improving the country's connectivity and trade routes<sup>10</sup> that suffer from chronic underfunding.

Such investments ensure that Russian companies benefit from increased trade volumes. This integration helps cement Russia's economic influence in the region by creating more seamless trade networks and fostering closer economic ties between Russia and Central Asian countries.<sup>11</sup>

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7 Tochinn, Andrey et al. "Eurasian Economic Union Development 2022+: Strategic Objectives and Demands of the Times." Russian Council. Accessed May 15, 2024. <https://russiancouncil.ru/papers/EAEU-Report84En.pdf>

8 ROGTEC. "Lukoil Has Invested \$7.5 Billion in Projects in Uzbekistan Over 20 Years." ROGTEC, July 15, 2024, <https://www.rogtecmagazine.com/lukoil-has-invested-7-5-billion-in-projects-in-uzbekistan-over-20-years/#:~:text=Lukoil%20Has%20Invested%20%247.5%20Billion%20in%20Projects%20in%20Uzbekistan%20Over%20%20Years,-%E2%80%94%20July%2015%2C%202024&text=During%20its%20work%20in%20the,in%20projects%20in%20this%20country>

9 Financial Times. "Uzbekistan Lobbies EU to Lift Sanctions on Alisher Usmanov." Financial Times, November 9, 2022. <https://www.ft.com/content/6a42b111-a166-4a96-9ce6-d3d5b6a67d0c>

10 Putz, Catherine. "What's the Status of Plans to Export Russian Gas to Uzbekistan?" The Diplomat, June 8, 2023, <https://thediplomat.com/2023/06/whats-the-status-of-plans-to-export-russian-gas-to-uzbekistan/>; Shokri, Umud. "The Future of Russian-Uzbekistani Energy Relations." Jamestown, April 4, 2023, <https://jamestown.org/program/the-future-of-russian-uzbekistani-energy-relations/>

11 Putz, Catherine. "What's the Status of Plans to Export Russian Gas to Uzbekistan?" The Diplomat. June 8, 2023. <https://thediplomat.com/2023/06/whats-the-status-of-plans-to-export-russian-gas-to-uzbekistan/>

China complements Russia's efforts in Central Asia through its expansive Belt and Road Initiative, which aims to create a vast network of trade routes across Asia, Africa, and Europe. A key project under this initiative is the China-Kyrgyzstan-Uzbekistan (CKU) railway, which seeks to enhance regional connectivity and open new trade corridors.

The CKU railway project, proposed in the mid-1990s and recently gaining traction, will span approximately 523 kilometres, including challenging mountainous terrains in Kyrgyzstan. This ambitious project involves the construction of over 50 tunnels and 90 bridges.<sup>12</sup> The railway is expected to significantly reduce transit times for goods travelling between China and Europe, potentially cutting the journey by seven to eight days.<sup>13</sup> Additionally, a draft agreement suggests that the Kyrgyz government will grant China the right to operate mines with significant reserves in the region, highlighting economic incentives beyond mere transport efficiency.<sup>14</sup>

However, the CKU railway faces several challenges, including funding difficulties and political opposition. Kyrgyzstan, in particular, has expressed concerns about the potential debt implications and environmental impacts associated with the project. Disagreements over the route and funding methods have also stalled progress. Kyrgyzstan has a significant debt to China, making it wary of further financial entanglements.<sup>15</sup> Despite these hurdles, the project represents a strategic move by China to enhance its influence in Central Asia while supporting regional stability and economic development.<sup>16</sup>

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uzbekistan/; "Russia and Uzbekistan: Oil and Gas Cooperation." International Affairs. July 20, 2010. <https://en.interaffairs.ru/article/russia-and-uzbekistan-oil-and-gas-cooperation/>; Shokri, Umud. "The Future of Russian-Uzbekistani Energy Relations." Jamestown. April 4, 2024. <https://jamestown.org/program/the-future-of-russian-uzbekistani-energy-relations/>

12 Abilgazina, Aizhan, and Dante Schulz. "China-Kyrgyzstan-Uzbekistan Railway Project: Current Developments, Prospects, and Challenges." Caspian Policy Center, July 24, 2020, <https://caspianpolicy.org/research/articles/china-kyrgyzstan-uzbekistan-railway-project-current-developments-prospects-and-challenges>; Torogeldi, Bakyt, and Chynybaeva, Baktygul. "Ambitious China-Kyrgyzstan-Uzbekistan Railway Project Faces Major Funding Challenges." Radio Free Europe/Radio Liberty, October 31, 2023, <https://www.rferl.org/a/china-kyrgyzstan-uzbekistan-railway-project-challenges/32661996.html>

13 Ji, Siqi, and Kandy Wong. "Will China's Rail Link Between Xinjiang, Kyrgyzstan and Uzbekistan Change the Great Power Rivalry in Central Asia?" South China Morning Post, June 9, 2022, <https://www.scmp.com/economy/china-economy/article/3180900/will-chinas-rail-link-between-xinjiang-kyrgyzstan-and>; Karimov, Navruz, and Kurbonmuratov, Abror. "Who Will Actually Benefit From the China-Kyrgyzstan-Uzbekistan Railroad?" The Diplomat, October 18, 2023, <https://thediplomat.com/2023/10/who-will-actually-benefit-from-the-china-kyrgyzstan-uzbekistan-railroad/>

14 Intelligence Online. "Central Asian rail megaproject set to further China's mining and security objectives." Intelligence Online, October 2, 2024, <https://www.intelligenceonline.com/international-dealmaking/2024/10/02/central-asian-rail-megaproject-set-to-further-china-s-mining-and-security-objectives,110312868-art>

15 Abilgazina, Aizhan, and Schulz, Dante. "China-Kyrgyzstan-Uzbekistan Railway Project: Current Developments, Prospects, and Challenges."; Karimov, Navruz, and Abror Kurbonmuratov. "Who Will Actually Benefit From the China-Kyrgyzstan-Uzbekistan Railroad?"

16 Ji, Siqi, and Kandy Wong. "Will China's Rail Link Between Xinjiang, Kyrgyzstan and Uzbekistan Change the Great Power Rivalry in Central Asia?"; Torogeldi, Bakyt, and Chynybaeva, Baktygul. "Ambitious China-Kyrgyzstan-Uzbekistan Railway Project Faces Major Funding Challenges."

## Diplomatic Efforts and Economic Integration

China has engaged in robust diplomatic efforts to strengthen its ties with Central Asian countries, complementing Russia's influence in the region. Beijing's strategy involves offering significant financial aid, development loans, and investments in critical infrastructure projects, aimed at securing China's economic interests and ensuring the smooth implementation of the Belt and Road Initiative (BRI). Central Asian countries, recognizing the economic benefits of this engagement, have generally been receptive to China's advances, further consolidating the region's integration into the broader Eurasian trade network.

China's foreign aid and investment in Central Asia have focused on developing infrastructure, including railways, roads, and energy projects. This has been particularly evident in countries like Kazakhstan and Uzbekistan, where significant Chinese investments have been directed toward enhancing transportation and energy infrastructure.<sup>17</sup> These investments are not only designed to improve local economies but also to facilitate smoother trade routes that are crucial for the BRI.

Diplomatic engagement from China has included high-level visits and bilateral agreements aimed at deepening economic ties. For instance, during a visit to Kazakhstan, Chinese President Xi Jinping highlighted plans to increase bilateral trade and investment, demonstrating China's commitment to the region's economic development.<sup>18</sup> A commitment that China's President Xi was only too happy to demonstrate by organising his first post-COVID foreign visit to Kazakhstan.<sup>19</sup>

The economic advances made by both Russia and China in Central Asia have transformed the region into a critical hub for Eurasian trade. The Middle Corridor, facilitated by the combined infrastructure projects and diplomatic efforts of these two powers, has become a vital route for the movement of goods between Europe and Asia. This corridor not only enhances regional trade but also provides significant economic benefits to Central Asian countries by offering them increased connectivity and access to global markets.<sup>20</sup>

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17 Wong, Brian, and Akylbayev, Iskander. "What Does Xi Jinping's Visit Tell Us About China's Relationship with Central Asia?" *The Diplomat*, September 15, 2022, <https://thediplomat.com/2022/09/what-does-xi-jinpings-visit-tell-us-about-chinas-relationship-with-central-asia/>; Murtazashvili, Jennifer B. "China's Activities and Influence in South and Central Asia." *Carnegie Endowment for International Peace*, May 17, 2022, <https://carnegieendowment.org/posts/2022/05/chinas-activities-and-influence-in-south-and-central-asia?lang=en>

18 Wong, Brian, and Akylbayev, Iskander. "What Does Xi Jinping's Visit Tell Us About China's Relationship with Central Asia?"

19 Bloomberg News. "China's Xi to Visit Kazakhstan in First Trip Since 2020." *Bloomberg*, September 5, 2022, <https://www.bloomberg.com/news/articles/2022-09-05/china-s-xi-to-visit-kazakhstan-in-first-trip-since-2020-ifx>

20 Wolf, Charles, Jr., Wang, Xiao, and Warner, Eric, "China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations, and Implications". RAND Corporation, 2013, [https://www.rand.org/pubs/research\\_reports/RR118.html](https://www.rand.org/pubs/research_reports/RR118.html); United States-China Economic and Security Review Commission. "China's Activities and Influence in South and Central Asia." *United States-China Economic and Security Review Commission*. November 2022, [https://www.uscc.gov/sites/default/files/2022-11/Chapter\\_3\\_Section\\_3--Chinas\\_Activities\\_and\\_Influence\\_in\\_South\\_and\\_Central\\_Asia.pdf](https://www.uscc.gov/sites/default/files/2022-11/Chapter_3_Section_3--Chinas_Activities_and_Influence_in_South_and_Central_Asia.pdf)

As a result, the economic landscape of Central Asia is increasingly shaped by the strategic interests and investments of Russia and China. The development of infrastructure and trade routes under the BRI and other initiatives has solidified their influence over Eurasian trade routes, making the region a pivotal part of the global supply chain.<sup>21</sup>

The deepening Russia-China partnership poses a significant threat to EU and UK security, leveraging economic tools for political gains. The fusion of Chinese economic influence, primarily through the Belt and Road Initiative, and Russian geopolitical strategy, risks undermining Western influence in Eurasia. This alliance fosters a more hostile environment for European and British interests, complicating their geopolitical landscape.

The strategic importance of the Middle Corridor, combined with Russia's control over the Northern and North-South corridors, further enables Russia to bolster its military logistics and supply chains. This logistical advantage ensures a steady flow of resources, allowing Russia to sustain and potentially escalate its military activities in Ukraine. Such control could complicate efforts to reach a peaceful resolution by maintaining the supply of essential military materials to Russian forces.<sup>22</sup>

The alignment of Chinese economic power with Russian strategic objectives creates a formidable bloc that challenges Western hegemony in Eurasia. This partnership allows both countries to circumvent Western sanctions, strengthening their economic resilience and expanding their influence over developing nations reliant on these trade routes. The consolidation of such a partnership could significantly diminish the EU and UK's ability to project power and influence in the region, potentially isolating them from crucial economic and political developments.<sup>23</sup>

## Countering Russian advances

Russian overtures and advances to the Uzbeks and the Kyrgyz governments, in a bid to control the trade along the Middle Corridor, require an alternative pathway to be supported by Western nations, allowing for a separation between direct and overwhelming Kremlin

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21 Wolf, Charles, Jr., Xiao Wang, and Eric Warner, "China's Foreign Aid and Government-Sponsored Investment Activities: Scale, Content, Destinations, and Implications"; Murtazashvili, Jennifer B. "China's Activities and Influence in South and Central Asia."

22 Eldem, Tuba. "Russia's War on Ukraine and the Rise of the Middle Corridor as a Third Vector of Eurasian Connectivity." Stiftung Wissenschaft und Politik, October 28, 2022, <https://www.swp-berlin.org/10.18449/2022C64/>; Duffy, Seamus. "Why the Middle Corridor Is a Double-Edged Sword." *The Diplomat*, December 14, 2023, <https://thediplomat.com/2023/12/why-the-middle-corridor-is-a-double-edged-sword/>

23 Duffy, Seamus. "Why the Middle Corridor Is a Double-Edged Sword"; Çolakoğlu, Selçuk. "The Middle Corridor and the Russia-Ukraine War: The Rise of New Regional Collaboration in Eurasia?" *The Central Asia-Caucasus Analyst*, January 31, 2023, <https://www.cacianalyst.org/publications/analytical-articles/item/13744-the-middle-corridor-and-the-russia-ukraine-war-the-rise-of-new-regional-collaboration-in-eurasia?.html>; McBride, James, Berman, Noah, and Andrew Chatzky. "China's Massive Belt and Road Initiative." Council on Foreign Relations, February 2, 2023, <https://www.cfr.org/background/briefings/chinas-massive-belt-and-road-initiative>

influence over the trade flows to Europe. Such pathways, however, do not require a new route, but consolidation along the existing infrastructure that is less susceptible to Russian control.

Kazakhstan's central location in Eurasia makes it a natural transit hub. The corridor passes through key regions that facilitate shorter transit times compared to traditional maritime routes. This central positioning not only reduces the distance for goods travelling between Europe and Asia but also provides a strategic alternative to routes passing through politically sensitive areas like Russia, offering greater stability and reliability for shippers.<sup>24</sup>

Strategically positioned in the heart of Eurasia, Kazakhstan serves as an effective transit hub, significantly shortening the journey between Europe and Asia. This central location not only trims travel distances but also circumvents routes through geopolitically sensitive areas, such as Russia. This alternative offers enhanced stability and reliability, which is crucial for shippers seeking dependable logistics solutions

Kazakhstan's commitment to bolstering its transit infrastructure is evident through significant projects like the Khorgos Gateway and the Khorgos-Eastern Gates special economic zone. These developments are pivotal in facilitating efficient rail transshipment between China and Kazakhstan, improving cargo handling<sup>25</sup>, and reducing overall transit times.

The Middle Corridor has experienced a dramatic increase in trade volume, with cargo shipments soaring from approximately 350,000 tons in 2020 to 3.2 million tons by 2022. This growth trajectory is expected to continue, with projections suggesting a potential tripling of trade volumes and a halving of transit times by 2030. Such expansion not only bolsters regional trade but also stimulates broader economic development, accommodating the expedited transfer of high-value goods like machinery and electronics.

The development of the Middle Corridor has gained momentum, particularly following the geopolitical shifts after Russia's invasion of Ukraine. As businesses seek to navigate away from routes affected by sanctions and instability, Kazakhstan's route offers a more secure long-term alternative for Eurasian trade.<sup>26</sup>

Kazakhstan plays a crucial role in fostering economic ties and cooperation within the region by connecting with neighbouring countries like Azerbaijan, Georgia, and Turkey. This integration not only strengthens local economies but also supports a cohesive and robust economic zone conducive to sustained growth.<sup>27</sup>

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24 "Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030." Washington, DC: World Bank, p. 16

25 Ibid

26 Chang, Felix K. "The Middle Corridor through Central Asia: Trade and Influence Ambitions." Foreign Policy Research Institute, February 21, 2023, <https://www.fpri.org/article/2023/02/the-middle-corridor-through-central-asia-trade-and-influence-ambitions/>

27 Ibid; World Bank. "Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030". Washington, DC: World Bank, p. 17

Kazakhstan's infrastructure, notably its railway networks and strategic port facilities such as Aktau and Kuryk, forms the backbone of the Middle Corridor. These facilities, along with planned expansions and enhancements in multimodal operations, underpin the route's capacity to handle increased trade volumes efficiently.<sup>28</sup>

With competitive shipping rates and a stable geopolitical environment, Kazakhstan offers an economically viable and secure route that stands out amidst regional tensions.<sup>29</sup> This aspect is particularly appealing in an era where economic predictability is a valued commodity in global trade logistics.<sup>30</sup> It is this trait that can only solidify with the possible open transit network that can emerge across Central Asia, through the TRACECA framework.

## TRACECA and the Middle Corridor

TRACECA (Transport Corridor Europe-Caucasus-Asia) is an international transport cooperation program between Europe, the Caucasus, and Asia and is one of the keys which the MC countries have at their disposal to expedite shipping (transit) along the route. It focuses on enhancing economic relations, trade, and transport communications across these regions.<sup>31</sup> This organisation to the Middle Corridor in fostering cooperation and easing transit of goods along the Corridor.

TRACECA's initiatives have increasingly emphasised digitalization and simplification of transport procedures. Efforts include the adoption of electronic TIR (eTIR) systems to streamline customs procedures and the implementation of digital platforms to unify transport documentation and operations across member countries.<sup>32</sup> These advancements aim to enhance the operational efficiency of the Middle Corridor and make it more competitive and attractive for international trade.

TRACECA also collaborates with various international partners and member countries to develop and improve infrastructure, legal frameworks, and logistical services along the Middle Corridor. This collaboration helps to ensure that the corridor can handle increased freight volumes and meet the evolving demands of international trade and transport.

An important development within TRACECA is the concept of Mutual Recognition of Authorised Economic Operators (AEO) - a critical initiative aimed at streamlining the

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28 Ibid p. 16

29 Ibid, p. 42

30 Ibid, p. 46

31 TRACECA. «O TPACEKA.» TRACECA, accessed October 28, 2024. <https://traceca-org.org/ru/o-traseka/>; Republic of Turkey Ministry of Foreign Affairs. "Türkiye's Relations with TRACECA (Transport Corridor Europe-Caucasus-Asia)," <https://www.mfa.gov.tr/traceca.en.mfa>

32 TRACECA. "On February 26, 2024, the Second Round Table on the Practical Implementation of the Guidelines on Mutual Recognition of Diplomas and Qualifications in the TRACECA Region Was Held." TRACECA. [https://traceca-org.org/ru/novosti/single-news/n/on\\_february\\_26\\_2024\\_the\\_second\\_round\\_table\\_on\\_the\\_practical\\_implementation\\_of\\_the\\_guidelines\\_on\\_mu/](https://traceca-org.org/ru/novosti/single-news/n/on_february_26_2024_the_second_round_table_on_the_practical_implementation_of_the_guidelines_on_mu/)

movement of goods across international borders by simplifying customs procedures.<sup>33</sup> The mutual recognition of AEOs facilitates quicker, more secure trade across these diverse regions, significantly reducing the logistic costs and time delays associated with border crossings and customs checks. This efficiency is particularly crucial for landlocked countries within the corridor that depend heavily on streamlined border procedures to access international markets. An AEO is a status granted to businesses that meet stringent customs compliance and supply chain security standards. This status is recognised across participating countries, allowing AEO-certified businesses to enjoy benefits such as fewer physical inspections and reduced administrative burdens. An initiative that deserves the diplomatic support of states interested in the development of the Middle Corridor and one that merits UK attention.

It is also important to view TRACECA through the prism of the Russian Federation. The initiative has been credited in Russian academic circles<sup>34</sup> and by the Russian Ministry of Foreign Affairs<sup>35</sup> as an American exercise in dominating the region's transportation routes. Alternative to TRACECA, Russia sees the North South route through its partner - Iran.<sup>36</sup>

## 2. Limitations of the Middle Corridor

The Middle Corridor faces several challenges that may impede its effectiveness as a primary trade route between Europe and Asia. These challenges stem from various logistical, infrastructural, and geopolitical factors, as well as competition from other established routes. To tackle bottlenecks and boost the capacity of the Middle Corridor to 11 million tons annually by 2030<sup>37</sup>, Azerbaijan, Georgia, Kazakhstan, and Turkey are working together to develop this crucial trade route.

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33 InvestKZ. "Kazakhstan-China Business Council Opens in Beijing." InvestKZ. Accessed May 14, 2024. URL: <http://investkz.com/journals/39/217.html>

34 Безруков, Леонид Алексеевич. "Транссиб и Шелковый путь: глобальная инфраструктура и региональное развитие" [The Trans-Siberian Railway and the Silk Road: global infrastructure and regional development]. *Всероссийский экономический журнал ЭКО* 7 (505) 2016. p. 24

35 Ministry of Foreign Affairs of the Russian Federation. "Евразийский Транспортный Коридор (Проект TRACECA)," [Eurasian Transport Corridor (TRACECA Project)]. Ministry of Foreign Affairs of the Russian Federation, January 28, 2000, [https://www.mid.ru/ru/foreign\\_policy/economic\\_diplomacy/1745635/](https://www.mid.ru/ru/foreign_policy/economic_diplomacy/1745635/)

36 Malysheva, D. "Russia and Eurasia's Transit Corridors." *Russia and New States of Eurasia* (2023): 91-102. DOI: 10.20542/2073-4786-2023-2-91-102; Gegelashvili, N. "The Role of the US and the EU in Central Asia in the New Geopolitical Realities." *Russia and New States of Eurasia*, 2023. no. II (LIX). p. 112-126, <https://doi.org/10.20542/2073-4786-2023-2-112-126>; Sidorov, A. "Двадцать лет спустя, или Продолжение следует?" [Twenty years later, or should it be continued?]. *Морские вести России* no. 4 (2023). May 17, 2023. <https://morvesti.ru/analitika/1685/102698/>

37 Pannier, Bruce. "The Middle Corridor Is Opening". Caspian Policy Center, January 22, 2024, <https://www.caspianpolicy.org/research/economy/the-middle-corridor-is-opening>

## Infrastructure Limitations

The infrastructure along the Middle Corridor is currently underdeveloped to handle significant trade volumes. For instance, although trade volumes via the corridor increased by 10% in 2021 due to shifts in geopolitical alignments, the infrastructure struggled to cope with these increased volumes, leading to bottlenecks and disruptions.<sup>38</sup> Meanwhile, the countries along the route are making active efforts to implement their ambitious plans.

In a significant move to ensure steady cargo flow from East to West, Kazakhstan and China signed a series of agreements in November 2023 aimed at enhancing the route's capabilities, including China-Europe container train services.<sup>39</sup> A joint venture, Middle Corridor Multimodal Ltd, was set up at the Astana International Financial Centre to coordinate operations. This venture brings together the railway authorities of Kazakhstan, Azerbaijan and Georgia.<sup>40</sup>

To streamline logistics further, the national railway systems of Azerbaijan and Kazakhstan have been integrated with the Tez Customs digital platform, allowing for electronic customs clearance of goods. Similar integration is planned with Georgia's railway network to facilitate smoother cross-border transit.<sup>41</sup>

Within the framework of the joint venture “China-Kazakhstan Trade and Logistics Company,” established in 2023 with the participation of Xi'an Free Trade Port Construction and Operation Co., Ltd. and JSC “Kazakhstan Temir Zholy” (Kazakhstan Railways), the national railway company of Kazakhstan, a terminal was built in the dry port of Xi'an. This terminal, which opened on February 28, 2024, now handles 40% of all container trains heading to Kazakhstan, significantly boosting transit traffic through the Middle Corridor.

By the end of 2023, cargo volumes on the Middle Corridor increased by 65% compared to 2022, reaching 2.76 million tons, up from 1.7 million tons the previous year. During the first seven months of 2024, shipments totalled 2.56 million tons – 63% more than the same period in 2023 – demonstrating the corridor's growing importance as a reliable trade route.<sup>42</sup>

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38 World Bank. “Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030”. p. 17

39 Казакстан теміржолшысы. “Казакстан и Китай подписали соглашение по развитию ТМТМ” [Kazakhstan and China have signed an agreement on the development of the Trans-Caspian International Transport Route]. JSC National Company Kazakhstan Temir Zholy, October 17, 2023, <https://rail-news.kz/ru/news/15878-pravitelstva-kazaxstana-i-kitaia-podpisali-soglasenie-po-razvitiuu-tmtm.html>

40 Railway Supply. “A Joint Railway Enterprise Formed by Azerbaijan, Kazakhstan, and Georgia – Middle Corridor Multimodal Ltd.” Railway Supply, October 27, 2023, <https://www.railway.supply/en/a-joint-railway-enterprise-formed-by-azerbaijan-kazakhstan-and-georgia-middle-corridor-multimodal-ltd/>

41 Railway Supply. “Digital Corridor on the Trans-Caspian Route: A New Perspective on Logistics.” Railway Supply, May 30, 2024, <https://www.railway.supply/en/digital-corridor-on-the-trans-caspian-route-a-new-perspective-on-logistics/>

42 Cargo Club. “In seven months, the volume of traffic on the Trans-Caspian route increased by 63%.” Cargo Club. August 28, 2024, [https://cargoclub.io/en/news/transkaspiskiy\\_marshrut.html](https://cargoclub.io/en/news/transkaspiskiy_marshrut.html)

Meanwhile, the corridor's existing facilities and logistics systems are not yet robust enough to manage large-scale trade efficiently. Delays at border crossings, such as the Dostyk-Alashankou and Khorgos-Altynkol borders with China, can also be significant. These are caused by infrastructure limitations, inefficient customs procedures, and insufficient sorting.

In response to inefficient customs procedures, the government of Kazakhstan is introducing the new system to automate customs processes and simplify express cargo declarations. This initiative aims to reduce paperwork and make procedures more efficient<sup>43</sup>, yet the effectiveness of these measures are yet to be proven. With support from USAID, Kazakhstan is also upgrading its server infrastructure to enhance system performance and transparency, creating a more business-friendly environment that attracts investors.<sup>44</sup> However, significant challenges remain, and further improvements are necessary.

Russia's ongoing war against Ukraine, with no end in sight, and the persistent sanctions on Moscow, continue to intensify regional challenges. At the same time, unresolved tensions in the South Caucasus, particularly between Armenia and Azerbaijan, raise concerns about the transit route through Turkey from Armenia, further complicating the geopolitical landscape. Nevertheless, the Middle Corridor remains a promising alternative. The current delays in transit, due to crossing multiple borders, are primarily technical. Azerbaijan, Kazakhstan, and Georgia are actively working together to address these issues and improve the route's efficiency.

The prime example is the insufficient capacity and congestion on railways, leading to bottlenecks. The Kazakh railway segments, particularly the Dostyk-Moiynty line, face capacity limitations. This segment, a major artery for export commodities from Kazakhstan to China, is often congested, with current usage nearing 80% of capacity. Such bottlenecks lead to delays and reduced efficiency<sup>45</sup>, while also putting additional strain on the rail network's ability to cope with demand.

To address these challenges, the national railway company of Kazakhstan has already accelerated the opening of several railway segments in central Kazakhstan ahead of schedule, and the construction of the railway bypassing Almaty is nearing completion, which will help alleviate some of the pressure on the network and improve the flow of goods across the corridor.<sup>46</sup> However, despite these efforts, there remains a notable shortage of rolling stock and locomotives, which exacerbates delays, particularly at key transfer points. This

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43 State Revenue Committee Ministry of Finance of the Republic of Kazakhstan. “Упрощено таможенное декларирование экспресс-грузов” [Customs declaration of express cargo has been simplified]. State Revenue Committee Ministry of Finance of the Republic of Kazakhstan, May 4, 2024, <https://kgd.gov.kz/ru/news/uproshcheno-tamozhennoe-deklarirovanie-ekspress-gruzov-1-144668>

44 US Mission Kazakhstan. “USAID Modernizes Kazakhstan's Customs Processing with Handover of Computer Servers.” USAID, August 14, 2024, <https://kz.usembassy.gov/usaids-modernizes-kazakhstans-customs-processing-with-handover-of-computer-servers/>

45 World Bank. *Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030*, p. 48

46 Railway Pro. “Almaty rail bypass construction launched.” Railway Pro, November 17, 2023, <https://www.railwaypro.com/wp/almaty-rail-bypass-construction-launched/>

shortage affects the smooth transfer of goods across the corridor, leading to increased transit times.<sup>47</sup>

Much of the Kazakh railway infrastructure is not electrified, particularly critical segments like the Altyntol to Shymkent route. This lack of electrification hampers efficiency and increases operational costs due to the reliance on diesel locomotives<sup>48</sup>, while also having an environmental effect and may be potentially holding back any environmental investments into the Corridor.

The issues of congestion and bottlenecks are not limited solely to the railways. Although the Port of Aktau is not fully utilised, specific segments, such as the container handling facilities, experience congestion. The dwell time for containers can be as long as 5-12 days, indicating inefficiencies in handling and processing cargo.<sup>49</sup> Furthermore, while ports like Kuryk are expanding, they still lag in terms of container capacity and handling efficiency. For instance, Kuryk's container capacity is significantly lower, and ongoing projects like the dedicated container terminal are yet to be completed.<sup>50</sup>

Another infrastructure associated concern is that of the environmental variable factors for the maritime section of the route. The declining water levels of the Caspian Sea pose a significant risk to port operations in Aktau and Baku. This environmental factor affects navigation and vessel loading capacities, potentially leading to further congestion and delays.<sup>51</sup>

## Geopolitical Instability

The Middle Corridor runs through several countries, each with different levels of political stability and economic policies, which can impact the smooth flow of trade. To address this, the railway authorities of Kazakhstan, Azerbaijan, and Georgia have formed a joint venture, Middle Corridor Multimodal Ltd., aimed at harmonizing regulations and minimizing potential delays along the route. The corridor's importance has grown significantly due to geopolitical shifts, particularly after Russia's invasion of Ukraine, which diverted some trade away from the Northern Corridor. However, the corridor's reliance on such geopolitical changes for its viability adds a layer of uncertainty to its long-term stability.

The Middle Corridor passes through several countries with differing levels of political stability and economic policies. To enhance consistency in regulations and minimize the risk of delays, the railway authorities of Kazakhstan, Azerbaijan, and Georgia have established a joint venture, Middle Corridor Multimodal Ltd. The corridor gained prominence partly

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47 World Bank. *Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030*, p. 40

48 Ibid, p. 46

49 Ibid, p. 42

50 Ibid

51 Ibid, p. 56

due to the geopolitical disruptions caused by Russia's invasion of Ukraine, which redirected some trade flows away from the Northern Corridor. However, the dependence on such geopolitical shifts for its viability introduces uncertainty.<sup>52</sup>

The involvement of stakeholder countries in the route presents challenges related to bureaucracy and transparency. The countries involved have yet to fully address the limitations in their digital infrastructure, which can lead to inefficiencies in tracking, documentation, and coordination. These inconsistencies may result in delays at various points along the route, ultimately affecting the overall reliability of the corridor. Addressing these issues will require concerted efforts from the involved countries, with initiatives like TRACECA offering a valuable framework for improvement.

## Comparative Disadvantages

Despite its strategic positioning, the Middle Corridor handles less than 5% of the transcontinental trade between the EU and China. In contrast, the Northern Corridor, via Russia and Belarus, managed over 86% of this traffic between 2019 and 2021.<sup>53</sup> Additionally, maritime routes remain dominant due to their cost-effectiveness and capacity, accounting for 91% of China-Europe trade by volume in 2021.<sup>54</sup> The Middle Corridor's relatively high costs and lower capacity make it less competitive.

Meanwhile, the Middle Corridor could see a significant rise in relevance due to increasing geopolitical risks in other regions. The ongoing instability in the Middle East, including the threat of attacks on tankers by the Houthis in the Bab-el-Mandeb Strait and the escalating tensions between Iran and Israel, contributes to the unpredictable nature of maritime routes. These developments might prompt stakeholders to seek alternative, more secure routes. As a result, the Middle Corridor, despite its current cost and capacity limitations, may become a more attractive option in the context of rising security concerns along traditional routes.

Despite the growing presence of roll-on/roll-off vessels in the Caspian Sea and increased interest from European logistics companies, the corridor's reliance on multiple modes of transport (rail, road, and sea) adds complexity and potential delays. Disruptions in 2021 and 2022 led to a shift towards sea and road transport, which are less efficient and environmentally sustainable compared to rail.<sup>55</sup> This modal imbalance further complicates the corridor's operational efficiency.

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52 Ibid, p. 17

53 Ibid, p. 16

54 Ibid

55 Ibid, p. 18

### 3. Northern Corridor

The Northern Corridor, a land-based route, leverages Russia's extensive rail infrastructure to facilitate trade between Europe and China. The Trans-Siberian Railway is the backbone of this corridor, spanning over 9,289 kilometres.

The Trans-Siberian Railway, one of the world's longest rail networks, is capable of handling over 100 million tonnes of cargo annually and has been undergoing modernization to enhance its efficiency. Recent investments include upgrading tracks, expanding rail yards, and improving signalling systems.

The Baikal-Amur Mainline (BAM), a critical parallel route to the Trans-Siberian Railway, also plays a significant role in the Northern Corridor. The ongoing modernisation of BAM includes the construction of second tracks, modernisation of power systems, and installation of advanced signalling and communication equipment. These improvements are expected to increase the throughput capacity and reduce bottlenecks, ensuring a more reliable flow of goods across Russia.<sup>56</sup>

China's involvement in the Trans-Siberian Railway is one aspect of its Belt and Road Initiative (BRI), which aims to improve connectivity across Eurasia. With moderate investments in infrastructure, China seeks to facilitate smoother transport of goods between China and Europe. This partnership offers potential benefits for both sides: China gains an alternative overland route to Europe, while Russia receives some transit fees and may see a slight boost in trade activity.

Despite the benefits, the Trans-Siberian Railway faces several challenges. Parts of the railway still suffer from ageing infrastructure, leading to inefficiencies and delays.<sup>57</sup> Additionally, while the Trans-Siberian Railway offers a faster alternative to sea routes, it is more expensive due to the extensive distances covered and the logistical complexities of transcontinental rail transport. This cost factor can sometimes make it less competitive, especially for bulk commodities where shipping costs are a critical consideration.<sup>58</sup>

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56 APEXCOM. "History, Current Status, Development Plans of BAM and Trans-Siberian Railway." APEXCOM, December 11, 2023, <https://apexcom.net/en/business/bam-and-trans-siberian-railway-history-current-status-development-plans>; Notteboom, Theo, Athanasios Pallis, and Jean-Paul Rodrigue. "The Eurasian Landbridges." *Port Economics, Management and Policy*, 2022, <https://porteconomicsmanagement.org/pemp/contents/part2/port-hinterlands-regionalization/eurasian-landbridge/>.

57 "APEXCOM. "History, Current Status, Development Plans of BAM and Trans-Siberian Railway."; Lo, Chris. "Russian Railways: Connecting a Growing Economy." *Railway Technology*, April 30, 2013, <https://www.railway-technology.com/features/featurerussia-railways-connecting-growing-economy/>

58 Colakoglu, Selçuk. "China's Belt and Road Initiative and Turkey's Middle Corridor: A Question of Compatibility." *Middle East Institute*, January 29, 2019, <https://www.mei.edu/publications/chinas-belt-and-road-initiative-and-turkeys-middle-corridor-question-compatibility>; Chang, Felix K. "The Middle Corridor Through Central Asia: Trade And Influence Ambitions – Analysis." *Eurasia Review*, February 22, 2023. <https://www.eurasiareview.com/22022023-the-middle-corridor-through-central-asia-trade-and-influence-ambitions-analysis/>

Before the war in Ukraine, 86 percent of land trade between Europe and China passed through Russia along the Northern Corridor. However, European sanctions against Moscow have now made this route far less appealing for global trade. Relying on Russian infrastructure and railway services to import goods from China has become a strategic vulnerability that Europe is eager to eliminate.<sup>59</sup>

The Northern Corridor has experienced a significant decline in use due to the geopolitical instability triggered by Russia's full-scale invasion of Ukraine in February 2022. This war has led to a wave of international sanctions, dramatically increasing both the cost and complexity of transporting goods along this route. Logistical disruptions from the war have also impacted nearly all trade flows between Russia and Europe, resulting in prolonged delays and a sharp rise in global freight prices. Consequently, container shipping between the European Union and China via Russia is estimated to have decreased by at least 35%.<sup>60</sup>

It seems that in response to these challenges, Russia has undertaken various infrastructure improvements along the Northern Corridor, aiming to maintain its role as a dominant transit route between Asia and Europe. By modernising its railways, ports, and logistics hubs, Russia is attempting to retain its position as the primary pathway for East-West trade and to discourage the development of competing routes, particularly the Middle Corridor.

However, this strategy has been met with scepticism from global stakeholders, who fear that Russia could exploit its transit infrastructure as a means of political leverage, similar to its past actions in the energy sector, where it has wielded control over gas supplies to pressure European nations.<sup>61</sup> This has heightened concerns that reliance on Russian-controlled transit routes could subject businesses to further disruptions driven by Russia's strategic interests.

Russia's efforts to improve the Northern Corridor can thus be seen as attempts to secure its monopoly over Eurasian transit and prevent the Middle Corridor from emerging as a formidable competitor. Nevertheless, the ongoing political and economic risks tied to Russia's aggressive foreign policy and the resulting sanctions have made the Northern Corridor increasingly unappealing. Businesses and governments are now more focused on developing stable, independent routes for global commerce, reflecting a broader shift toward trade diversification in response to the uncertainties surrounding the Northern Corridor.

The Northern Corridor poses significant security concerns for the EU and UK due to its role in transporting dual-use goods, items that can serve both civilian and military

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59 Rizzi, Alberto. "Risk and reward: Why the EU should develop the Middle Corridor trade route." European Council on Foreign Relation, April 11, 2024, <https://ecfr.eu/article/risk-and-reward-why-the-eu-should-develop-the-middle-corridor-trade-route/>

60 OECD. "Realising the Potential of the Middle Corridor." OECD Publishing, Paris, <https://doi.org/10.1787/635ad854-en>

61 Lawson, Alex "'Gas blackmail': how Putin's weaponised energy supplies are hurting Europe". The Guardian, July 15, 2022, <https://www.theguardian.com/world/2022/jul/15/gas-blackmail-how-putins-weaponised-energy-supplies-are-hurting-europe>

purposes, into Russia, potentially enhancing its military capabilities despite sanctions. This route enables the movement of sensitive technologies, such as microelectronics and navigation systems, which can be repurposed for military use, exacerbating the conflict in Ukraine and undermining international stability efforts.<sup>62</sup> Additionally, Russia's economic ties with China via this corridor bolster its revenue through transit fees and exports, helping Russia withstand international sanctions and maintain its economic resilience.

Against this backdrop, the Middle Corridor has attracted considerable interest as an alternative trade route between China and Europe. G7 countries, in particular, view the Middle Corridor as a more stable and secure option that aligns with their strategic objectives to reduce Russia's influence over global trade routes. Despite facing its own logistical challenges, this corridor presents a vital opportunity for trade diversification. By investing in this pathway<sup>63</sup>, the G7 countries aim to establish a more resilient and flexible network for Eurasian commerce, signalling a broader shift away from dependence on the increasingly volatile Northern Corridor.

#### 4. Russia's Northern Sea Route

One of Russia's major initiatives is the development of the Northern Sea Route (NSR), which offers a shorter maritime path between Europe and Asia through the Arctic. The melting Arctic ice has made this route increasingly viable, significantly reducing shipping times compared to the traditional Suez Canal route. However, the viability of this route is met with growing scepticism. Despite Russia's active efforts to invite Chinese investment and collaborate on infrastructure development, geopolitical and environmental challenges continue to cast doubt on the long-term potential of the NSR.

Russia has been actively inviting Chinese investment to enhance control over this vital global shipping lane. Collaboration between the two nations has involved Chinese companies in constructing infrastructure such as deep-water ports and railroads in Russia's Arctic regions.<sup>64</sup> However, while this cooperation has advanced, Western countries view China's growing involvement in the Arctic with suspicion, especially following the Ukraine war, which has strained global relations. The ambitious "Polar Silk Road" project, intended to create a fast-shipping route from China to Europe, faces numerous challenges, from

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62 Kasyanchuk, Denis. "Сделано в Китае: как Россия в обход санкций нарастила экспорт гражданских и военных китайских товаров" [Made in China: How Russia Has Increased the Export of Civilian and Military Chinese Goods to Bypass Sanctions]. *The Bell*. <https://thebell.io/sdelano-v-kitae-kak-rossiya-v-obkhod-sanktsiy-narastila-eksport-grazhdanskikh-i-voennykh-kitayskikh-tovarov>

63 Foreign, Commonwealth & Development Office. "G7 foreign ministers' meeting in Japan." FCDO, November 8, 2023, <https://www.gov.uk/government/news/g7-foreign-ministers-statement-in-japan-november-2023>; The White House. "G7 Partnership for Global Infrastructure and Investment Side Event Co-Chair Statement." The White House, June 13, 2024. <https://www.whitehouse.gov/briefing-room/statements-releases/2024/06/13/g7-partnership-for-global-infrastructure-and-investment-side-event-co-chair-statement/>

64 Conley, Arts, Glaser, Berzina and Archambeau. "A New Era of Arctic Geopolitics." GMF, May 2024, <https://www.gmfus.org/sites/default/files/2024-07/A%20New%20Era%20of%20Arctic%20Geopolitics.pdf>

Western sanctions to logistical and infrastructure issues, slowing its potential realization.

The NSR involves several key ports along Russia's Arctic coastline, serving as critical nodes in this maritime corridor. Major ports include Murmansk in the west, Arkhangelsk, and newer ports such as Sabetta on the Yamal Peninsula. These ports are being developed and expanded to handle increased cargo volumes, with significant investments in icebreaker fleets to ensure year-round navigation.<sup>65</sup> Yet, the unpredictability of Arctic weather, including fog and shifting ice, continues to present a significant obstacle to reliable shipping along the NSR,<sup>66</sup> complicating efforts to make this route a stable alternative to the Suez Canal.

Murmansk, located in the northwest of Russia, serves as a crucial starting point for ships navigating the NSR. It is one of the few ice-free ports in the Russian Arctic, providing a year-round operational base. Arkhangelsk, another significant port, is further developing its facilities to support increased cargo handling capabilities. Sabetta, on the Yamal Peninsula, has become a pivotal LNG terminal, facilitating the export of liquefied natural gas extracted from the Yamal LNG project. However, recent international sanctions have impacted LNG projects, including Murmansk LNG and Obsky LNG, which have been suspended by Novatek.<sup>67</sup>

In October 2023, Russia raised its forecast by 50% for cargo shipments via the Northern Sea Route (NSR) by 2030. However, the actual cargo volumes will depend heavily on the successful completion of new energy projects. The base scenario projects 74 million tons of cargo in 2024, increasing to 224 million tons by 2030. In the optimistic scenario, these figures rise to 81 million tons by 2024 and 244 million tons by 2030. However, a more conservative outlook predicts only 117 million tons by 2030.<sup>68</sup>

Despite these projections, the reality may be more uncertain. Arctic conditions remain unpredictable, and the development of necessary infrastructure poses significant challenges. While Chinese companies are involved in Arctic projects, they remain cautious due to concerns over Western sanctions and Russia's increasing reliance on China amid deteriorating relations with the West. Additionally, infrastructure gaps, like the lack of a railway from Kirkenes to other parts of Europe, further limit the growth potential of the NSR.<sup>69</sup>

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65 Martins, Tiago Tecelão. "Arctic Ambitions: China's Engagement with the Northern Sea Route." *The Diplomat*, November 24, 2023, <https://thediplomat.com/2023/11/arctic-ambitions-chinas-engagement-with-the-northern-sea-route/>

66 *The Economist*: Down of the Solar Age, June 2024, p.62

67 Afanasiev, Vladimir. "Novatek suspends two major LNG projects as sanctions bite – report." *Upstream*, September 23, 2024, <https://www.upstreamonline.com/lng/novatek-suspends-two-major-lng-projects-as-sanctions-bite-report/2-1-1713670>

68 "Russia raises core forecast for traffic on Arctic sea route – Kommersant." *Reuters*, October 23, 2023, <https://www.reuters.com/business/autos-transportation/russia-raises-core-forecast-traffic-arctic-sea-route-kommersant-2023-10-23/>

69 *The Economist*. "Down of the Solar Age". *The Economist*, June 2024. p.62

In this context, while Russia aims to enhance its control over this strategic shipping lane and strengthen ties with China, the future of the NSR remains fraught with challenges. These challenges include not only physical infrastructure and climate conditions but also the broader geopolitical tensions that complicate cooperation between Russia, China, and Western countries. Moreover, the NSR represents yet another attempt by Russia to bolster its transport position and avoid international isolation. Thus, although the NSR holds strategic and economic appeal, its development faces significant uncertainties that may prevent it from becoming a major alternative global shipping route in the near future.

## 5. North-South Corridor Assessment

Russia's involvement in the North-South Corridor represents a significant strategic move to enhance its influence over trade routes connecting the Indian Ocean to Europe. This initiative, which involves substantial investments in Iran's infrastructure, aims to link ports in the Persian Gulf to Northern Europe via Iran, Azerbaijan, and Russia.<sup>70</sup> The corridor seeks to bypass traditional maritime chokepoints, thus offering a more direct and potentially more efficient route for transporting goods.

The key ports engaged in this corridor include Bandar Abbas in Iran, which serves as a critical hub for goods entering from the Indian Ocean. From Bandar Abbas, goods are transported by rail and road across Iran to the Caspian Sea port of Anzali. Here, goods are shipped across the Caspian Sea to Azerbaijan's port of Baku. From Baku, the route continues by rail through Azerbaijan and into Russia, eventually reaching northern Europe.<sup>71</sup>

The North-South Corridor is projected to handle a substantial volume of goods, with estimates suggesting it could facilitate the transport of up to 20 million tonnes of cargo <sup>72</sup>annually. This volume reflects the corridor's capacity to significantly boost trade efficiency by reducing travel time and costs compared to traditional maritime routes. For instance, the transit time from Mumbai to Moscow via this corridor is expected to be reduced by 40% compared to the Suez Canal route.<sup>73</sup>

The Russian government's efforts to construct the North-South Transport Corridor (NSTC) have seen significant advancements, driven by both economic incentives and geopolitical shifts. This corridor, which represents the shortest route from Russia to India,

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70 Fong, Clara, and Maizland, Lindsay. "China-Russia Relationship: Xi, Putin, Taiwan, Ukraine." Council on Foreign Relations, March 20, 2024, <https://www.cfr.org/backgroundunder/china-russia-relationship-xi-putin-taiwan-ukraine>

71 Smagin, Nikita. "A North-South Corridor on Putin's Dime: Why Russia Is Bankrolling Iran's Infrastructure." Carnegie Endowment for International Peace, June 15, 2023, <https://carnegieendowment.org/russia-eurasia/politika/2023/06/a-north-south-corridor-on-putins-dime-why-russia-is-bankrolling-irans-infrastructure?lang=en>

72 Kasturi, Sudan. "Russia's New Economic Escape Route." Al Jazeera, July 27, 2022, <https://www.aljazeera.com/economy/2022/7/27/russias-new-economic-escape-route>

73 Donnellon-May, Genevieve. "Full Steam Ahead: China-Kyrgyzstan-Uzbekistan Railway." The Interpreter, Lowy Institute, <https://www.lowyinstitute.org/the-interpreter/full-steam-ahead-china-kyrgyzstan-uzbekistan-railway>

has been a strategic focus, particularly as Russia reorients its economy towards the East amid increasing tensions with the West.

## Key Developments and Investments

In May 2023, Russia and Iran signed a \$1.7 billion agreement to construct the 162-kilometre Rasht-Astara railway, a critical link within the NSTC. This project, expected to be completed by 2027, will connect northern Iran to the Azerbaijani border, significantly enhancing the corridor's capacity and efficiency.<sup>74</sup>

Russia has committed substantial investments to modernise the NSTC's infrastructure. This includes upgrades to rail lines, ports, and logistic facilities to increase the corridor's throughput. By 2030, the total cargo volume through the NSTC is projected to increase from the current 15 million tonnes to 41-45 million tonnes, with potential future capacity reaching 100 million tonnes.<sup>75</sup>

The NSTC utilises multiple routes, including the Trans-Caspian route through Russian ports like Astrakhan, Olya, and Makhachkala, and direct rail connections through Kazakhstan, Uzbekistan, and Turkmenistan into Iran. These routes leverage a combination of rail, road, and maritime transport to optimise efficiency and connectivity.<sup>76</sup>

## Economic and Geopolitical Implications

For Iran, the NSTC offers substantial economic benefits. By becoming a major transit hub, Iran can boost its trade revenues and enhance regional economic integration. This is crucial for Iran's strategy to counter Western economic sanctions and foster closer ties with Eastern markets like India and China.<sup>77</sup>

The NSTC has the potential to stabilise and improve Iran's relations with Azerbaijan, a key transit country. Enhanced cooperation on this project could lead to broader geopolitical benefits, reducing regional tensions and fostering economic collaboration.<sup>78</sup>

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74 Nikola Mikovic. "Russia and Iran press ahead with 'new Suez'." *Asia Times*, May 26, 2023, <https://asiatimes.com/2023/05/russia-and-iran-press-ahead-with-new-suez/>

75 Bayramli, Nigar. «Russia, Iran Ink Railway Deal to Complete North-South Transit Corridor.» *Caspian News*, May 18, 2023. <https://caspiannews.com/news-detail/russia-iran-ink-railway-deal-to-complete-north-south-transit-corridor-2023-5-18-0/>

76 The Iran Primer. «Iran, Russia on New Network of Land-Sea Routes.» *Iran Primer*, United States Institute of Peace, May 18, 2023. <https://iranprimer.usip.org/blog/2023/may/18/iran-russia-new-network-land-sea-routes>

77 Mikovic, Nikola. «Russia and Iran Press Ahead with New Suez.» *Asia Times*, May 26, 2023. <https://asiatimes.com/2023/05/russia-and-iran-press-ahead-with-new-suez/>

78 Bayramli, Nigar. «Russia, Iran Ink Railway Deal to Complete North-South Transit Corridor.»

## Challenges

The development of the NSTC faces numerous challenges, including geopolitical tensions, financial constraints, and technical issues. These obstacles are significant for the EU, US, and UK, especially as global trade routes shift and geopolitical alliances change. The corridor could reshape Eurasian trade by bypassing traditional Western-dominated maritime routes, but it also raises concerns for Western powers due to its political, economic, and security implications.

Iran's outdated infrastructure is a major challenge for the NSTC, particularly with the delayed Rasht-Astara railway, which has faced technical issues and insufficient funding. Iran's financial struggles add to the problem, despite Russian loans, it has struggled to repay debts from previous projects, like the Bushehr nuclear plant. As a result, Moscow may be required to fund most of that developments, though it is running low on funds due to the war in Ukraine.<sup>79</sup>

The NSTC also faces competition from other transport routes, such as India's proposed International Maritime Energy Corridor (IMEC). While India has invested in Iran's Chabahar port to bypass Pakistan and connect with the NSTC, the involvement of heavily sanctioned Iran and Russia makes it unlikely to serve as a reliable entry point to Europe for India. IMEC offers a solution by providing India with a trade route that avoids both China and Pakistan, enhancing its connectivity options.<sup>80</sup>

Despite its potential, the NSTC faces significant challenges, including geopolitical instability, financial difficulties, and competition from alternative routes. Without substantial investments and international cooperation, the corridor may struggle to achieve its full potential as a reliable trade route connecting Russia to the Indian Ocean.

For Western countries, the strengthening of ties between Russia, Iran, and potentially India poses a geopolitical challenge. The deepening Russia-Iran partnership helps both countries circumvent Western sanctions and threatens the West's ability to economically isolate them. Russia also benefits from an alternative to Western trade routes, reducing its dependence on Europe.

China is also involved in regional infrastructure development, building the China-Kyrgyzstan-Uzbekistan railway, which will connect to the NSTC via Turkmenistan. China views Iran as central to its Middle East strategy, seeing it as a key partner in reshaping the global order, which it believes currently favors the US. China Railway International Group has been preparing for this expansion, reinforcing Iran's role in this emerging trade network.<sup>81</sup>

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79 Kirillova, Ksenia. "Moscow Considers Borrowing From Tehran's Economic Model to Weather Sanctions." *Eurasia Daily Monitor* Volume: 21 Issue: 133, September 17, 2024, <https://jamestown.org/program/moscow-considers-borrowing-from-tehrans-economic-model-to-weather-sanctions/>

80 Rizzi, Alberto. "The infinite connection: How to make the India-Middle East-Europe economic corridor happen." *European Council on Foreign Relation*, April 23, 2024, <https://ecfr.eu/publication/the-infinite-connection-how-to-make-the-india-middle-east-europe-economic-corridor-happen/>

81 Intelligence Online. "Central Asian rail megaproject set to further China's mining and security

## 6. Central Asian Investment Climate

The Central Asian investment climate, particularly in Kazakhstan, offers significant potential for the UK and Western nations due to its strategic infrastructure, such as the Middle Corridor. According to the 2024 U.S. State Department's Investment Climate Statements, Kazakhstan presents both opportunities and challenges, with vast natural resources but issues like bureaucracy and localized corruption. However, foreign investors are well-protected by strong legal frameworks, especially through the Astana International Financial Centre. In contrast, neighbouring countries like Kyrgyzstan, Uzbekistan, and Turkmenistan face greater obstacles, including political instability and economic dependence on Russia, which complicates investment. The UK's growing economic partnership with Kazakhstan, especially support for the Middle Corridor, aligns with its strategy to enhance trade routes, create investment opportunities, and diversify trade options to mitigate geopolitical risks. This also supports the UK's sustainability goals.

### Kazakhstan investment environment

According to the 2024 U.S. State Department's Investment Climate Statements<sup>82</sup>, Kazakhstan has made substantial strides in building a market economy since gaining independence from the Soviet Union in 1991. Leveraging its rich reserves of minerals, petroleum, and natural gas, the country has attracted significant foreign investment. As of October 1, 2023, the stock of foreign direct investment stood at \$173.4 billion, with the United States contributing \$44.8 billion. However, U.S. investments in Kazakhstan's hydrocarbon sector likely exceed official figures, as many investments flow through third-party jurisdictions.

While hydrocarbons and minerals remain the backbone of Kazakhstan's economy, the government is gradually diversifying into other sectors. The Kazakh government actively engages with foreign investors through formal bodies like the President's Foreign Investors Council and bilateral channels. The country is also a member of key international trade organizations, including the World Trade Organization and the Eurasian Economic Union.

The ongoing war in Ukraine and sanctions on Russia have impacted Kazakhstan's investment climate. Despite sharing a long border and strong economic ties with Russia, Kazakhstan has reaffirmed its commitment to adhering to Western sanctions. The Kazakh economy has shown resilience in the face of these challenges, supported by favourable commodity prices. The conflict has also opened up new trade opportunities for Kazakhstan as Western businesses look for alternatives to Russia and Belarus. Kazakhstan is expanding its trade networks and focusing on the trans-Caspian Middle Corridor to boost its external trade flows.

Kazakhstan's recently proposed economic reforms aim to drive industrial development,

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objectives.”.

<sup>82</sup> US State Department “2024 Investment Climate Statements: Kazakhstan.” U.S. Department of State, <https://www.state.gov/reports/2024-investment-climate-statements/kazakhstan/>

support local businesses, improve the business climate, and reduce monopolies. These reforms include significant tax changes set for 2025. Despite these steps, challenges remain. Corruption and bureaucratic hurdles continue to pose obstacles for investors. However, foreign investors can navigate these challenges more easily, as their interests are safeguarded by strong legal frameworks and government guarantees that provide a stable and secure investment environment.

A central pillar of this investor protection is the Astana International Financial Centre (AIFC), which represents a significant stride in Kazakhstan's ambition to position itself as a major economic hub in Central Asia. By adopting English common law<sup>83</sup>, the AIFC offers a legal environment that is both familiar and reassuring to Western investors, particularly those from the United Kingdom. This legal framework is known for its clear, consistent application and well-established jurisprudence, which reduces the risks typically associated with legal uncertainties in emerging markets. This alignment with international legal standards is designed to make the AIFC an attractive destination for foreign capital. Key features of this legal framework include the use of precedent-based decisions to ensure consistency in legal rulings, robust mechanisms for dispute resolution to protect investor interests, and a strong regulatory oversight body that enforces compliance and governance standards akin to those found in Western financial centres.

Furthermore, the regulatory environment within the AIFC is tailored to support brisk business operations and growth, making it a breakthrough for investment in Central Asia.<sup>84</sup> The AIFC allows 100% foreign ownership<sup>85</sup>, enabling international investors to fully own their enterprises without the requirement for local partners, which is a significant draw that allowed the Centre to attract over \$10 billion of investment in 5 years of operation.<sup>86</sup> Additionally, there are no restrictions on the repatriation of capital, allowing for the free movement of funds, which is crucial for global businesses.

The AIFC participant companies benefit from a BEPS-compliant preferential tax regime, offering generous exemptions for various financial and, professional services providers, and market institutions. These tax benefits also extend to individuals, including foreign specialists and investors, making the AIFC attractive to a wide range of financial professionals. These regulatory measures not only enhance the cost-effectiveness of investments but also position the AIFC as a gateway for businesses looking to tap into the burgeoning markets of Central Asia.<sup>87</sup>

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83 US State Department "2024 Investment Climate Statements: Kazakhstan." U.S. Department of State, <https://www.state.gov/reports/2024-investment-climate-statements/kazakhstan/>

84 The Economist. "Kazakhstan: The Crossroads of the New Silk Road." The Economist, July 1, 2017, <https://www.economist.co./asia/2017/07/01/kazakhstan-the-crossroads-of-the-new-silk-road>

85 AIFC. "AIFC. About Us." AIFC, 2024, <https://aifc.kz/about/>

86 Long, Kimberley. "Kazakhstan Builds Capital Markets Momentum." The Banker, August 24, 2023, <https://www.thebanker.com/Kazakhstan-builds-capital-markets-momentum-1692861145>

87 Astana Times Staff. "AIFC Presents Cooperation Opportunities for UK Investors." The Astana Times, February 2024. <https://astanatimes.com/2024/02/aifc-presents-cooperation-opportunities-for-uk-investors/>

As of March 2024, the UK's development goals with Kazakhstan<sup>88</sup> are focused on fostering sustainable economic growth, enhancing trade, and supporting Kazakhstan's transition to a green economy, as detailed in the UK-Kazakhstan Development Partnership Summary. This strategic alignment is aimed at promoting British investments in sectors critical to Kazakhstan's diversification away from its oil-dependent economy, including renewable energy, financial services, and technology. The UK's commitment to these goals not only facilitates deeper bilateral trade relations but also potentially stabilises and improves the investment climate for UK businesses in Kazakhstan.

By supporting Kazakhstan's economic modernization and environmental initiatives, the UK positions its companies to benefit from emerging opportunities in a transitioning market, aligning investment potential with Kazakhstan's developmental needs and the UK's broader foreign policy objectives of promoting sustainability and economic resilience in partner countries. Furthermore, Kazakhstan's recent decision to proceed with the construction of a nuclear power plant (NPP) through an international consortium presents significant opportunities for UK companies to contribute advanced technologies and expertise to this major project, potentially strengthening their presence in Kazakhstan's energy sector and enhancing the UK's role in the country's energy diversification and security strategy.

Kazakhstan's investment law<sup>89</sup> is structured to create a favourable environment for foreign investors, including those from the UK, by offering a range of incentives and protections that aim to enhance the attractiveness and security of investments. Notably, the law includes provisions for the stability of contracts, guarantees against expropriation, and the compensation in case such expropriation occurs, ensuring that investments are not arbitrarily jeopardised by political or economic changes within the country. Furthermore, the law provides for the repatriation of profits and capital, which is a significant consideration for UK investors looking to ensure that their overseas earnings can be returned home efficiently and without undue restriction. These legal assurances are complemented by fiscal incentives such as tax breaks and customs duty exemptions on the import of equipment, which collectively serve to reduce operational costs and improve the profitability of UK investments in Kazakhstan. By aligning its investment laws to international standards of investor protection and offering competitive incentives, Kazakhstan enhances its appeal as a viable and lucrative destination for UK investors looking to capitalise on opportunities, particularly in the burgeoning sectors of energy, mining, and infrastructure.

Kazakhstan's presence in the global market is increasingly pronounced, highlighted by the successful international trajectories of significant national enterprises such as Kaspi. kz<sup>90</sup> - the company behind a 'super app' that encompasses banking, consumer

88 Foreign, Commonwealth & Development Office. "UK-Kazakhstan Development Partnership Summary: March 2024." GOV.UK. March 27, 2024, <https://www.gov.uk/government/publications/uk-kazakhstan-development-partnership-summary/uk-kazakhstan-development-partnership-summary-march-2024>

89 UNCTAD. "Kazakhstan Investment Law." Investment Policy Hub, November 7, 2024, <https://investmentpolicy.unctad.org/investment-laws/laws/98/kazakhstan-investment-law>

90 Scribner, Quinton Jenkins, Penelope. "Riches Despite Risks: Central Asia and International

finance, and e-commerce - raised \$1 billion in its Nasdaq debut for a valuation of \$17.5 billion<sup>91</sup>, and Air Astana, listed on the London Stock Exchange, raising \$120 million for a valuation of \$847 million.<sup>92</sup> These companies not only reinforce Kazakhstan's expanding economic role but also offer tangible benefits and strategic partnership opportunities for the United Kingdom. The success of Kaspi.kz, a leader in the FinTech sector, and Air Astana, the nation's flagship airline, exemplifies areas where British companies can engage meaningfully. Potential collaborations in technology and aviation present opportunities for UK businesses to access new markets in Central Asia and leverage Kazakhstan's strategic geographic positioning as a connector between Asia and Europe.

Particular attention should be given to the national nuclear company Kazatomprom, the world's largest uranium producer, whose shares are listed on the London Stock Exchange.<sup>93</sup> This international presence underscores its significant role in the global energy sector. Since 2018, Kazatomprom has effectively utilised the Middle Corridor for its logistics. In 2023, 64% of all uranium shipments from Kazakhstan to Western markets were efficiently transported via this route<sup>94</sup>, highlighting the corridor's strategic importance for Kazakhstan's export infrastructure and its contribution to global energy supply chains.

For British investors, the international success of these Kazakh firms, evidenced by their listings on platforms like the London Stock Exchange, marks a promising avenue for diversifying investment portfolios into vibrant sectors of the Kazakh economy. This move not only yields substantial returns but also fosters stronger economic and political ties between the UK and Kazakhstan. Additionally, the expansion of Air Astana's operations, including routes to major UK cities, enhances logistical and transport links, thereby facilitating increased mobility, tourism, and business exchanges between the two nations. These developments are instrumental for the UK, serving its strategic interests in a region that is gaining prominence due to its resources and location, and offering a gateway to potential markets and technological collaborations that could benefit the UK's own economic sectors.

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Investment." S-RM, March 11, 2024, <https://www.s-rminform.com/latest-insights/riches-despite-risks-central-asia-international-investment>

91 Nussupova, Assel. "Appetite for Innovation: Look at Kazakhstan's First Nasdaq Listed Company, Kaspi.kz," The Astana Times, January 26, 2024, <https://astanatimes.com/2024/01/appetite-for-innovation-look-at-kazakhstans-first-nasdaq-listed-company-kaspi-kz/>

92 "Market Screener. "Air Astana Eyes USD847 Million Market Cap Ahead of IPO." MarketScreener, February 9, 2024, <https://uk.marketscreener.com/quote/stock/BAE-SYSTEMS-PLC-9583545/news/Air-Astana-eyes-USD847-million-market-cap-ahead-of-IPO-45920515/>

93 Financial Times. "JSC National Atomic Co. Kazatomprom 4Q23 Operations and Trading Update." Financial Times, February 1, 2024, <https://markets.ft.com/data/announce/detail?dockey=1323-16313069-2TPGOH47JDQUHHOU81DPM01A3I>

94 Interfax. "Kazatomprom Diverted Most Uranium Exports to Bypass Russia in 2023." Interfax, February 5, 2024, <https://interfax.com/newsroom/top-stories/99086/>

## Kyrgyzstan investment environment

Kyrgyzstan's political environment, both the frequent internal turmoil in the country, and the nation's foreign policy, including its close relationship with Russia and a strained relationship with neighbours expected to take part in the Middle Corridor route that circumvents Kazakhstan, do not present an favourable investment platform and do not align with UK interests.

According to the 2024 Investment Climate Statements by the US State Department<sup>95</sup>, Kyrgyzstan's economic landscape has experienced significant growth, largely fuelled by cross-border trade and currency flows, especially in the aftermath of Russia's conflict with Ukraine. However, despite this economic boom, Kyrgyzstan remains a high-risk frontier market, attracting investors with a higher tolerance for volatility. Concerns persist regarding the evasion of international sanctions and ongoing issues of smuggling, raising questions about the long-term sustainability of these economic gains.

While the government has made strides in diversifying foreign direct investment, particularly in sectors such as energy, mining, and IT, the nationalization of the Kumtor gold mine in 2021 has cast a shadow over the mining industry. Foreign investors continue to face challenges related to the judiciary, which is perceived as weak and susceptible to corruption. Legal protections remain inconsistent, and foreign companies may encounter heightened scrutiny despite official policies encouraging investment.

Despite a legal framework aligned with international standards, enforcement remains problematic, and the use of criminal investigations in commercial disputes complicates the business environment. Moreover, the Kyrgyz government has prioritized sustainable development initiatives in areas like hydropower and green construction, but the banking sector's close ties to Russia exacerbate concerns over sanctions compliance, limiting access to U.S. dollar transfers.

Additionally, the country's political landscape is marked by frequent changes in leadership and governmental structures, which can result in abrupt and often unpredictable policy shifts. This volatility undermines investor confidence and complicates long-term business planning. The judicial system, vulnerable to corruption and influence from political and business entities, further challenges the fairness and reliability of legal proceedings. These factors create a high-risk environment for foreign investors, where legal protections are inconsistent and contingent on shifting political dynamics, making it a complex and uncertain market.

Kyrgyzstan has seen increased influence from Moscow, raising concerns about its democratic trajectory and alignment with Russian interests in the political and media sectors. Recent legislative developments in Kyrgyzstan, such as the advancement of a “foreign agents” law<sup>96</sup>, mirror Russian policies and signify a troubling shift towards authoritarianism.

<sup>95</sup> U.S. Department of State. “2024 Investment Climate Statements: Kyrgyz Republic.” State.gov, 2024, <https://www.state.gov/reports/2024-investment-climate-statements/kyrgyz-republic/>

<sup>96</sup> Chris Rickleton. “Kyrgyzstan Passes Controversial ‘Foreign Agents’ Bill in Final Reading.” Radio

The proposed law, aimed at organisations receiving foreign funding, threatens to severely restrict the operations of civil society groups and curtail freedom of expression. This regression in democratic practices and basic freedoms in Kyrgyzstan underscores the profound impact of Russian hegemony on the country's governance and societal norms, potentially stalling progress towards a more open and democratic society.

Kyrgyzstan, in its geopolitical positioning, has notably resisted adherence to international sanctions imposed on Russia, standing out in Central Asia for its non-compliance. Unlike Kazakhstan, which has publicly declared its alignment with these sanctions at the highest levels of government, Kyrgyzstan has taken a divergent path.<sup>97</sup> This defiance of international norms regarding sanctions not only reflects Kyrgyzstan's robust political and economic ties with Russia but also raises questions about its commitment to global regulatory frameworks and international diplomacy. Such a stance could potentially isolate Kyrgyzstan on the international stage, affecting its relationships with Western allies and complicating its participation in global economic systems. This non-compliance with anti-Russian sanctions underscores the complexity of Kyrgyzstan's foreign policy, which seeks to balance its historical ties with Russia against the broader geopolitical currents shaping the region.

When evaluating Kyrgyzstan's trade relations with Russia, particularly in the context of sanctions, it is crucial to focus specifically on the supply of dual-use products, which are capable of being used for both civilian and military purposes. These items are explicitly listed under various sanctions regimes to prevent their use in conflict settings. The significance of monitoring these products stems from their potential to undermine the efficacy of international sanctions aimed at curbing military aggression. In the case of Kyrgyzstan, whose trade with Russia remains robust, discerning the nature of exported goods is essential to understanding whether the nation is inadvertently or deliberately facilitating the circumvention of sanctions through the transfer of sensitive technologies and materials.

There are increasing concerns that Kyrgyzstan is facilitating the supply of dual-use goods to Russia, complicating its position in the global sanctions framework.<sup>98</sup> This role is particularly concerning given the global efforts to enforce sanctions designed to de-escalate hostilities and promote resolution through diplomatic means. The scrutiny of such trade practices is not only a matter of compliance with international law but also a significant aspect of global security dynamics. As international bodies and governments intensify their watch on sanction evasions, countries like Kyrgyzstan find themselves at a crossroads, needing to balance their economic and political alliances with Russia against their obligations to adhere to international sanctions and norms.

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Free Europe/Radio Liberty, March 15, 2024, <https://www.rferl.org/amp/kyrgyzstan-final-reading-controversial-bill-foreign-agents-calls/32861621.html>

97 Reuters Staff. "Key Parts of Sweeping US Sanctions Against Russia." Reuters, February 23, 2024. <https://www.reuters.com/world/key-parts-sweeping-us-sanctions-against-russia-2024-02-23/>

98 Webster, Joseph. "Kyrgyzstan's Route Facilitating Russia's Invasion of Ukraine." *The Interpreter*, April 23, 2024, <https://www.lowyinstitute.org/the-interpreter/kyrgyzstan-route-facilitating-russia-s-invasion-ukraine>; Gustafson, Thane. "Tanks or Trains: Russia is Bearing the Cost." *Substack*, June 12, 2023, <https://thanegustafson.substack.com/p/tanks-or-trains-russia-is-bearing>

The ongoing border conflicts between Kyrgyzstan and Tajikistan, along with historical clashes between Uzbek and Kyrgyz diasporas<sup>99</sup>, play a significant role in the geopolitical dynamics of Central Asia<sup>100</sup>, particularly affecting the investment climate in Kyrgyzstan. These tensions are rooted in the longstanding disputes over poorly demarcated borders and the allocation of scarce water resources, which have occasionally led to violent encounters.

These conflicts undermine the region's stability, which is crucial for attracting foreign investment. Investors typically seek stable regions with predictable legal and economic environments, and recurrent clashes can deter potential investments due to the increased risks associated with political and social instability. For Kyrgyzstan, this means potential setbacks in its development goals, as continual unrest can scare off international businesses and development agencies looking to engage with the country.

Moreover, the border disputes complicate Kyrgyzstan's relationships with its neighbours, affecting regional cooperation and economic integration efforts.<sup>101</sup> Such regional instability can impede not only direct investment in the countries involved but also broader initiatives that depend on transnational collaboration, such as infrastructure projects and regional trade agreements.

## Uzbekistan Investment environment

The Uzbek government's recent interactions with the UK, particularly during the visit of Lord Cameron, reveal a nuanced approach to balancing its international relations, especially considering the delicate geopolitical influences in the region. Lord Cameron's visit aimed to foster stronger ties between the UK and Uzbekistan, including a significant meeting with his Uzbek counterpart<sup>102</sup> to discuss various bilateral issues, such as trade, investment, and cooperation in sectors like education and technology. These discussions underscore a mutual interest in deepening relations.

However, the Uzbek President's decision to go on holiday just before Cameron's visit<sup>103</sup>,

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99 EU Political Report Staff. "Uzbekistan-Kyrgyzstan Border Issues." EU Political Report, May 2024, <https://eupoliticalreport.com/uzbekistan-kyrgyzstan-border-issues/>; Foreign, Commonwealth & Development Office. "Tajikistan: Regional Risks." GOV.UK, May 2024, <https://www.gov.uk/foreign-travel-advice/tajikistan/regional-risks>

100 Gavin Helf, "Border Clash Between Kyrgyzstan and Tajikistan Risks Spinning Out of Control," United States Institute of Peace, May 4, 2021, <https://www.usip.org/publications/2021/05/border-clash-between-kyrgyzstan-and-tajikistan-risks-spinning-out-of-control/>

101 Chris Rickleton. "Kyrgyzstan and Tajikistan Work Towards Resolving Border Conflicts." Radio Free Europe/Radio Liberty, December 19, 2023, <https://www.rferl.org/amp/kyrgyzstan-tajikistan-border-conflicts-resolution/32739110.html>

102 RFE/RL's Uzbek Service. "Cameron Visit to Uzbekistan Marks Strengthening UK-Central Asia Relations." Radio Free Europe/Radio Liberty, April 24, 2024, <https://www.rferl.org/a/uzbekistan-cameron-visit-uk-relations-central-asia-tour/32917269.html>

103 Gazeta.uz. "Президент предложил продлить отпуск госслужащих до 36 дней" [The President proposed to extend the vacation of civil servants to 36 days]. Gazeta.uz, April 22, 2024, <https://www.gazeta.uz/ru/2024/04/22/president/>; Gazeta.uz. "В Узбекистане установлены новые сроки отпусков для госслужащих" [New vacation periods for civil servants have been established in Uzbekistan]. Gazeta.

deliberately avoiding a meeting, suggests a strategic manoeuvre to maintain a complex diplomatic balance. This absence was likely a diplomatic snub to minimise potential friction with Moscow, indicating Tashkent's cautious diplomatic posture aimed at not antagonising Russia while still minimally engaging with Western nations like the UK. This action reflects Uzbekistan's broader strategy of navigating its relationships with major powers carefully, balancing its historical ties with Russia against its interests in expanding economic and diplomatic engagements with Western countries.

The investment climate in Uzbekistan, while showing some signs of progressive reform, remains hampered by concerns over political stability and deficiencies within the judicial system. According to the 2024 Investment Climate Statements by the US State Department<sup>104</sup>, although Uzbekistan has embarked on a path toward economic liberalisation and regulatory reform, these changes are often overshadowed by persistent issues of governance and legal inconsistency. Political power is heavily centralised, and sudden policy changes can occur without transparent processes, posing risks to investment continuity and predictability. Moreover, the judicial system in Uzbekistan is criticised for its lack of independence and susceptibility to political influence, which raises questions about the enforcement of contracts and property rights.

The government potentially may seize foreign investors' assets due to violations of the law or for arbitrary reasons, such as a unilateral revision of an investment agreement, a reapportionment of the equity shares in an existing joint venture with an SOE, or in support of a public works or social improvement project (similar to an eminent domain seizure). By law, the government is obligated to provide fair market compensation for seized property, but many who have lost property allege the compensation has been significantly below fair market value. This environment creates a complex landscape for investors who face significant operational and legal risks, impacting the overall attractiveness of Uzbekistan as a destination for foreign investment.

Investing in Uzbekistan presents unique risks for UK businesses, particularly in the context of the country's recent political and economic developments. The constitutional referendum on April 30, 2023, extended President Shavkat Mirziyoyev's tenure by up to seven years, from five, allowing him to remain in power until 2040.<sup>105</sup> Furthermore, the active involvement of the president's family in investment activities<sup>106</sup> might pose risks related to nepotism and transparency. This could complicate the business environment for foreign investors who might find themselves competing against well-connected local entities with significant influence over market dynamics and regulatory frameworks.

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uz, April 29, 2024, <https://www.gazeta.uz/ru/2024/04/29/vacation/>

104 US Department of State. "2024 Investment Climate Statements: Uzbekistan." State.gov, 2024, <https://www.state.gov/reports/2024-investment-climate-statements/uzbekistan/>

105 Kaminov, Liza. "Uzbekistan Passes Constitutional Reform That Extends President's Tenure." France 24, May 1, 2023, <https://www.france24.com/en/asia-pacific/20230501-uzbekistan-passes-constitutional-reform-that-extends-president-s-tenure>

106 Rickleton, Chris. "Uzbekistan Faces Accusations of Nepotism Involving President Mirziyoyev's Family." Radio Free Europe/Radio Liberty, July 13, 2023, <https://www.rferl.org/a/uzbekistan-nepotism-mirziyoyev--ruling-family-investigation/32502477.html>

Additionally, Uzbekistan's deepening economic ties with Russia<sup>107</sup>, evidenced by increased trade, the signing of the Comprehensive Strategic Partnership in 2022<sup>108</sup>, and the presence of numerous Russian university branches<sup>109</sup>, suggest a strong Russian influence in both the education sector and broader economic activities. While this relationship has led to a qualitative expansion in trade, it also ties Uzbekistan's economic fortunes closely with those of Russia, potentially exposing UK investors to geopolitical and economic vulnerabilities, especially considering ongoing international tensions involving Russia. The rise in trade turnover with Russia by 5.3% in 2023<sup>110</sup>, contrasted with the dynamics in neighbouring Kazakhstan, highlights Uzbekistan's growing economic alignment with Russia. This could affect the strategic positioning of UK investments, particularly if geopolitical conflicts or sanctions impact Russia. Moreover, Uzbekistan's recent inclusion in the UK's Enhanced Framework Generalised Scheme of Preferences (EF GSP) starting November 2021<sup>111</sup> provides preferential trade terms, yet the broader risks associated with governance and regional geopolitics remain a concern for sustaining long-term investments.

Uzbekistan presents significant investment risks that stem largely from its problematic record on human rights and fundamental freedoms. According to Human Rights Watch and the UK government, which designates Uzbekistan as a Human Rights Priority Country<sup>112</sup>, the state maintains stringent control over civil liberties, including freedom of expression, assembly, and the press. The persistence of such issues can lead to international condemnation and sanctions, which subsequently affects the country's economic environment and stability. Investors might face ethical dilemmas and reputational risks when engaging with markets where human rights abuses are prevalent, potentially leading to boycotts or consumer backlash in more sensitive markets.

Moreover, the Uzbek government's slow pace of implementing profound political reforms poses a further challenge. Despite some measures towards liberalisation under President Shavkat Mirziyoyev<sup>113</sup>, significant concerns remain, such as judicial independence,

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107 TASS. "Economic ties between Russia, Uzbekistan developing intensively — Putin." TASS, February 21, 2023, <https://tass.com/politics/1749923>

108 President of the Republic of Uzbekistan. "Bilateral Relations between Uzbekistan and Russia Reach the Level of Comprehensive Strategic Partnership." President of Uzbekistan, September 15, 2022, <https://president.uz/en/lists/view/5535>

109 KUN.UZ. "Three More Russian Universities to Open Branches in Uzbekistan." Kun.uz, May 16, 2023, <https://kun.uz/en/news/2023/05/16/three-more-russian-universities-to-open-branches-in-uzbekistan>

110 Gazeta.uz. "Uzbekistan's Trade Partners Announced." Gazeta.uz, February 9, 2024, <https://www.gazeta.uz/en/2024/02/09/trade-partners/>

111 Foreign, Commonwealth & Development Office. "UK Generalised Scheme of Preferences: Admission of Uzbekistan to the Enhanced Framework." GOV.UK, October 25, 2021, <https://www.gov.uk/government/publications/uk-generalised-scheme-of-preferences-admission-of-uzbekistan-to-the-enhanced-framework>

112 Foreign, Commonwealth & Development Office. "Human Rights and Democracy: The 2022 Foreign, Commonwealth & Development Office Report." GOV.UK, July, 13, 2023. <https://www.gov.uk/government/publications/human-rights-and-democracy-report-2022/human-rights-and-democracy-the-2022-foreign-commonwealth-development-office-report>

113 Agence France-Presse. "Uzbekistan votes on clause that could extend president's rule to 2040." The

transparency, and the rule of law<sup>114</sup>. These elements are crucial for creating a reliable investment climate but remain underdeveloped in Uzbekistan. The uncertainty surrounding the government's commitment to genuine reforms may deter foreign investment, as unpredictable policy shifts and potential legal issues can complicate business operations and affect profitability.

## Turkmenistan Investment environment

Turkmenistan's investment environment remains challenging due to high political and economic risks, ethical issues, and strong Russian influence. UK businesses face multifaceted risks, including compliance challenges, reputational concerns, and operational difficulties in navigating this opaque and unpredictable market.

According to the 2024 Investment Climate Statements by the U.S. State Department<sup>115</sup>, Turkmenistan's investment climate is high-risk due to extensive government control, strict currency regulations, corruption, and bureaucratic obstacles. Foreign direct investment (FDI) is limited, primarily focusing on the oil and gas sector, with minimal efforts to attract or incentivize foreign investors. Despite vast natural gas reserves and a modern Caspian seaport, state control restricts foreign involvement in key sectors.

The main barrier is the government's currency controls, which prevent profit repatriation and distort economic data, undermining investor confidence. Additionally, limited internet access, visa challenges, and workforce constraints hinder multinational operations. Investment opportunities in petrochemical production and energy efficiency exist but are hampered by weak legal protections and lack of transparency. The government's preference for state-owned enterprises further discourages international investors.

Investing in Turkmenistan carries significant risks linked to its human rights record, especially in the cotton industry, where forced labor is prevalent.<sup>116</sup> Despite denials from the government, credible reports confirm its reliance on forced labor, raising ethical concerns and potential sanctions risks for international businesses. Human rights abuses and a lack of governmental transparency create an unpredictable environment for investors.

Russia's influence in Turkmenistan<sup>117</sup> adds another layer of complexity, given its strategic partnerships with the ruling regime. This relationship supports regime stability but poses risks of sudden policy shifts or entanglements in geopolitical conflicts, complicating long-

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Guardian, April 30, 2023, <https://www.theguardian.com/world/2023/apr/30/polls-close-uzbekistan-referendum-shavkat-mirziyoyev>

114 Hassan, Tirana. "Uzbekistan. World Report 2024." Human Rights Watch, 2024, <https://www.hrw.org/world-report/2024/country-chapters/uzbekistan>.

115 U.S. Department of State. "2024 Investment Climate Statements: Turkmenistan." State.gov, 2024, <https://www.state.gov/reports/2024-investment-climate-statements/turkmenistan/>

116 Foreign, Commonwealth & Development Office. "Human Rights and Democracy: The 2022 Foreign, Commonwealth & Development Office Report." development-office-report

117 Horak, Slavomir. "Russian Influence in Turkmenistan: Rapprochement or Pragmatism?" Central Asia-Caucasus Institute & Silk Road Studies Program Joint Center Feature Article. January 17, 2023.

term investment planning. Russian involvement in security and strategic sectors also raises concerns about sanctions compliance and reputational damage for UK investors.

Turkmenistan's role in regional trade routes, linking China, Iran<sup>118</sup>, and Turkey, further complicates compliance with international sanctions. Agreements with Iran on gas swaps and infrastructure projects highlight the risk of indirect involvement in contentious regions. China's expanding influence in the region, evidenced by its increasing investments and infrastructure projects like the railway, aims to secure overland routes to Iran and consolidate its Middle Eastern strategy.<sup>119</sup>

## 7. UK interests in the Middle Corridor

Supporting the Middle Corridor Kazakhstan route holds distinct advantages for the United Kingdom, especially in the context of post-Brexit trade strategies and global logistics diversification. By endorsing and investing in the Middle Corridor Kazakhstan route, the UK can significantly enhance its trade connectivity not only with Central Asia and the Caucasus but also with broader Asian markets.

Historically, the UK has been one of Kazakhstan's key Western partners, with significant investments flowing into the Central Asian nation. Former British Prime Minister David Cameron's visit to Kazakhstan in 2013 marked a pivotal moment in this relationship, as it was the first visit by a serving British Prime Minister to the country.<sup>120</sup> This visit underscored the UK's commitment to deepening ties with Kazakhstan, particularly in the realm of economic and trade relations. Cameron's discussions during this visit focused on boosting trade and investment ties, highlighting Kazakhstan's potential as a significant emerging market within Central Asia

Current political relations between Kazakhstan and the UK are indicative of a wider government effort to stimulate business cooperation between the two states, as indicated by the frequency of official visits by government ministers. FCDO's Minister for Europe, Leo Docherty had conducted two visits over the course of 2023<sup>121</sup>, including a visit during the 7th UK-Kazakhstan Strategic Dialogue. In November 2023, Nusrat Ghani, Minister for Industry and Economic Security, co-chaired the Intergovernmental Commission

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118 Bayramli, Nigar. "Iran, Turkmenistan Ink Agreements in Roads, Power, and Trade Sectors." Caspian News, November 21, 2023. <https://caspiannews.com/news-detail/iran-turkmenistan-ink-agreements-in-roads-power-and-trade-sectors-2023-11-20-0/>

119 Intelligence Online. "Central Asian rail megaproject set to further China's mining and security objectives."

120 Watt, Nicholas. "David Cameron Hails Business Deals in Kazakhstan." The Guardian, July 1, 2013. <https://www.theguardian.com/politics/2013/jul/01/david-cameron-business-amnesty-kazakhstan-deal-nazarbayev>

121 Foreign, Commonwealth & Development Office. "Europe Minister to Forge Closer Relations in Central Asia." GOV.UK, June 4, 2023, <https://www.gov.uk/government/news/europe-minister-to-forge-closer-relations-in-central-asia>; Foreign, Commonwealth & Development Office. "7th UK-Kazakhstan Strategic Dialogue." GOV.UK, October 2, 2024, <https://www.gov.uk/government/news/7th-uk-kazakhstan-strategic-dialogue>

in Astana.<sup>122</sup> In April 2024, Kazakhstan was among the countries visited by the Foreign Secretary Lord Cameron<sup>123</sup>, the second high profile visit from the UK in just over a year, after the trip undertaken by the then Foreign Secretary James Cleverly in March 2023.<sup>124</sup> Such visits have also extended beyond trade relations, with Kazakhstan's Higher Education Minister's Visit to London in early 2024.<sup>125</sup>

Further commitment and intentions of the UK government were expressed by Chair of the Foreign Affairs Committee, Alicia Kearns MP. In her comments to the Government's response to the Foreign Affairs Committee recommendations, Ms Kearns expressed approval that the government plans to host a "Central Asia 5 + UK" meeting in 2024, emphasising the strategic importance of the region positioned between Russia and China.<sup>126</sup>

The UK has a long standing economic relationship with Kazakhstan. In 2021, the outward stock of foreign direct investment (FDI) from the UK in Kazakhstan was £237 million.<sup>127</sup> The Department for Business and Trade, together with the Department for International Trade, identified, in 2022, engineering services among the main areas of opportunity for UK businesses in Kazakhstan.<sup>128</sup> Services that include infrastructure projects that may be necessary for further development of the Middle Corridor route via Kazakhstan.

Despite challenges facing the Middle Corridor, such as bottlenecks in rail capacity, port congestion, and delays at border crossings, Kazakhstan, Azerbaijan, and Georgia are actively working to harmonize regulations and streamline processes to improve its reliability. The Middle Corridor provides a shorter alternative to the traditional Northern Corridor through Russia, becoming even more relevant after Russia's invasion of Ukraine, which has led to a decline in the use of the Northern Corridor and increased interest in the Middle Corridor as a secure alternative. Although the corridor faces stiff competition from the Northern

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122 AKORDA. "The Head of State receives the British Minister of State, Nusrat Ghani." The Press Service of the President of the Republic of Kazakhstan, November 21, 2023, <https://www.akorda.kz/en/1-21105236>

123 Foreign, Commonwealth & Development Office. "Foreign Secretary Travels to Central Asia and Mongolia in Landmark Visit to Region." GOV.UK. April 22, 2024. <https://www.gov.uk/government/news/foreign-secretary-travels-to-central-asia-and-mongolia-in-landmark-visit-to-region>

124 Foreign, Commonwealth & Development Office. "UK Foreign Secretary Visits Kazakhstan." GOV.UK, March 18, 2023. <https://www.gov.uk/government/news/uk-foreign-secretary-visits-kazakhstan>

125 The Astana Times. "Kazakh Higher Education Minister's Visit to London Concludes with Major Agreements." The Astana Times, January 28, 2024. <https://astanatimes.com/2024/01/kazakh-higher-education-ministers-visit-to-london-concludes-with-major-agreements/>

126 Foreign Affairs Committee. "Government Agrees to Committee's Recommendation for Central Asia-5 UK Diplomatic Meeting." UK Parliament. January 25, 2024, <https://committees.parliament.uk/committee/78/foreign-affairs-committee/news/199564/government-agrees-to-committees-recommendation-for-central-asia-5-uk-diplomatic-meeting/>

127 Department for Business and Trade. "Kazakhstan Trade and Investment Factsheet." GOV.UK. April 19, 2024, <https://assets.publishing.service.gov.uk/media/661fdeb8ced96304c8757f26/kazakhstan-trade-and-investment-factsheet-2024-04-19.pdf>

128 Department for Business and Trade. "Exporting to Kazakhstan." GOV.UK, Last modified May 14, 2024, <https://www.gov.uk/government/publications/exporting-to-kazakhstan/exporting-to-kazakhstan#opportunities-for-uk-businesses-in-kazakhstan>

Corridor and maritime routes that dominate Europe-China trade, its appeal may increase due to rising security concerns in regions like the Middle East and the need for alternative routes caused by disruptions from the war in Ukraine.

Russia and China's significant influence over Central Asian trade routes through infrastructure investments and diplomatic efforts, particularly their alignment in the Belt and Road Initiative, challenges Western interests in Eurasia. To counter this influence, Western support is needed to strengthen existing infrastructure in the Middle Corridor rather than create new routes.

The Middle Corridor through Kazakhstan is not merely a passage; it embodies a pivotal strategic initiative that aligns impeccably with Britain's expressed foreign policy interests. By actively engaging with this route, the UK positions itself at the forefront of one of the emerging global trade arteries. This proactive involvement is harmoniously aligned with the UK's current strategic foreign policy objectives, significantly bolstering its robust investment portfolio in the region. Kazakhstan's strategic location in Eurasia makes it a key transit hub, offering a stable and efficient alternative to routes passing through Russia. Given the ongoing geopolitical tensions, such as the Russian invasion of Ukraine, the Middle Corridor's development offers the UK a valuable alternative that reduces dependency on Russian-controlled routes, enhancing trade security and stability.

## Conclusion

The Middle Corridor through Kazakhstan stands as a monumental and strategically vital opportunity for the United Kingdom and other Western nations, particularly in the wake of Brexit. This corridor, formally known as the Trans-Caspian International Transport Route (TTTR), presents an intriguing intersection of geographical significance and economic potential, underpinned by Kazakhstan's abundant natural resources and its government's earnest initiatives to refine the investment climate. The Middle Corridor has seen rapid growth in trade volumes with projections for further increases.

Kazakhstan's pivotal position, straddling the divide between Europe and Asia, renders it an indispensable nexus for trade and transit. The establishment of the Astana International Financial Centre (AIFC), which has adopted English common law, provides a semblance of legal familiarity that Western investors might find reassuring. Coupled with the creation of special economic zones and appealing tax incentives, these efforts reflect a deep-seated commitment from Kazakhstan to cultivate an environment conducive to foreign investment and economic diversification.

Challenges persist, such as limitations in rail capacity, port congestion, and occasional delays at border crossings. Nevertheless, efforts are being made to address these issues through infrastructure improvements, digital customs processes, and closer cooperation among countries like Azerbaijan, Georgia, and Turkey. The implications of the Middle Corridor extend well beyond the mere economic sphere. It represents a strategic fulcrum, allowing the UK to reduce its dependence on routes dominated by Russian influence, thereby

enhancing its geopolitical leverage and trade security. This shift is crucial in the current global climate, where Eastern European tensions are high, and the precariousness of South China Sea trade routes is increasingly apparent. The corridor not only promises diversified trade pathways but also strengthens the UK's global stance, in line with its aspirations to embody a "Global Britain."

Furthermore, the preference for overland rail routes over maritime shipping aligns seamlessly with the UK's sustainability objectives. Rail transport, by its nature, promotes reductions in carbon emissions and energy use, dovetailing with the broader environmental goals of the UK and serving as a testament to the practicality of sustainable development.

Investing in Kazakhstan, and by extension - the Middle Corridor, also offers the UK and its allies a strategic platform to foster regional stability and counter authoritarian influences through economic engagement and soft diplomacy. This strategy not only underpins socio-economic development and political stability in the region but also champions the principles of democracy and the rule of law, central tenets of Western foreign policy.

In essence, the Middle Corridor through Kazakhstan is not just an economic venture but a profound strategic enterprise. By bolstering its commitment to this route, the UK can not only enhance its economic resilience and extend its geopolitical influence but also play a crucial role in shaping a stable and prosperous regional and global order. The corridor stands not merely as a path but as a gateway to a dynamic, interconnected future – a future that promises substantial economic returns and a robust platform for international cooperation and growth.

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## About the Author

Dr Stepanenko is a former British political activist and candidate for elections to the London Borough of Barnet. Stepan was a member of the Belarusian opposition representative body, the Coordination Council, where he sat on the foreign affairs committee.

Stepan has given evidence to a number of UK parliamentary committees, including on the war in Ukraine, implications of the war for the UK, UK's stance on Iran, UK Defence, the Wagner group, and other subjects, as well as writing policy briefs and research papers on the topics of defence procurement and British engagement in Eastern Europe and the Pacific.

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