NEW ROUTES: CENTRAL ASIA'S GROWING ROLE IN GLOBAL TRADE, April 2025

*By **Rebecca Spong, Editorial Consultant**, February 2025*

Trade flows through Central Asia are set to increase as European institutions reduce their reliance on routes that cut through Russia and seek alternative overland corridors to transport goods to and from China. While there is often a sense of wariness of doing business in the region, new opportunities are emerging for ITFA members to provide trade finance – provided they have the right partners, risk appetite and local knowledge.

This article is based on a panel discussion from an ITFA NERC event held in London and hosted by Bank of China in February.

Central Asia is full of opportunities for those looking to finance trade flows of key commodities and goods flowing through the region between China and Europe. Referred to as the 'Middle Corridor' or the 'Trans-Caspian International Transport Route', this historic but currently underused route is likely to gain in popularity as traders and governments seek to avoid the traditional and often faster so-called 'Northern Route' that cuts through Russia.

Large sums of investment from the EU and other entities are pouring into the region in an effort to improve infrastructure and reduce reliance on trade corridors flowing through Russia, given the continued conflict in Ukraine and European sanctions on Russia. The World Bank predicts that trade flowing along the 'Middle Corridor' will triple by 2030.

"Trade through Central Asia is evolving in many exciting ways. Before we have a moment to blink, these trade flows will be fully integrated into the global supply chain," said Natalia Andrew, head of multinationals and financial institutions at Zenith Bank, speaking as the chair of a panel discussion about Central Asia held at an ITFA NERC event in February.

Hoping to offer a little geography revision to an audience of ITFA members, Andrew pinpointed Uzbekistan, Kyrgyzstan, Turkmenistan, Kazakhstan and Tajikistan on a map to make it clear what countries the panellists were going to discuss. [She added a spot test at the end of the panel – which the audience seemed to successfully pass!]

Notwithstanding the risks of doing business in the region, she went on to emphasise the fast-paced economic growth in many of the commodity-rich countries, noting how Uzbekistan is one of the largest producers and exporters of cotton and Kazakhstan became Germany's third-largest oil supplier in 2023. Turkmenistan holds the fourth-largest reserves of natural gas, she added.

Here are some of the key takeaways from the panel for those considering doing business in Central Asia:

- **There is a growing need for more trade finance lines**

There is significant need for increased trade financing in the region as the economies develop and grow. "There are lots of opportunities in transaction banking and in trade and export finance as these countries are importing a lot of capital goods in order to upgrade their economy and infrastructure," said Elitza Kavrakova, group head of institutional clients at Raiffeisen Bank International (RBI).

Charlie O'Mulloy, associate banker at European Bank for Reconstruction and Development (EBRD), noted that there is a real lack of clean commercial lines – particularly in Tajikistan and Kyrgyzstan. EBRD is playing a vital role in capacity building in the region to help plug that financing gap, he said. "We have 18 banks and US$600mn of limit, and around 75% of that is related to Uzbekistan as it is such a fast-growing economy."

- **Do your compliance checks and make informed choices**

Maintaining high levels of due diligence and compliance checks is increasingly essential when doing business in the region and avoiding financing the wrong type of deal.

While some of the countries have historically struggled with compliance standards, managing these risks and conducting due diligence has become even more complex for Western banks and institutions following the Russian invasion of Ukraine in 2022 and the resulting sanctions. Russia continues to wield significant influence over the region – given its historic and economic ties – ensuring banks need to be particularly vigilant about what they are financing.

Kavrakova said her bank had already begun a "deep dive" into its Central Asian business and its compliance standards in 2019 – even before the Russia-Ukraine conflict.

As part of RBI's correspondent banking strategy, the bank developed a compliance-risk rating model and, following a detailed compliance audit, decided to exit Tajikistan and Kyrgyzstan several years ago due to what it considered weak compliance records.

Kavrakova added that managing risks in the region became even more complex due to the emergence of 'sanction circumvention risk', where goods are re-exported from Europe into Russia via Central Asia.

She said that there was no current digital tool that could adequately track end-to-end where an imported good was going to end up. Therefore, the bank felt it couldn't guarantee to regulators that it was not financing the "wrong deal".

"We decided in the end to sacrifice part of the business and impose industry restrictions in that we no longer service certain industries," she explained to delegates. The bank remains very active in Uzbekistan and Kazakhstan.

Glen Unsworth, Commodity Business Centre (London) at Bank of China (UK) Limited, said his business was relatively unaffected by sanction circumvention risk, given that he was mainly involved in financing flows out of the region. However, he did add that there is an increased need for enhanced due diligence. "You need to look at the commodity and the producer you are financing and whether there is a Russian nexus. Where are the goods that the company uses for production and are they imports from Russia? How is the producer financed? By Russian banks or institutions? You do need to take a careful look at the complete flow both in and out to identify if there is a Russian nexus, and if there is – then that is a red flag."

All the banks EBRD deals with in the region are "beefing up their compliance teams", said O'Mulloy. He added: "We are checking all transactions and documentation. Our mandate means we can take our time over transactions and be there to support if we can."

Looking to the future, Kavrakova would like to see even more strengthening of institutions and regulators in Central Asia. "It is important to have greater connectivity between state authorities. I would like to have more control and oversight on where goods are going to avoid paying for mistakes. The connection between customs, tax offices, the central bank and the banking system needs to be strengthened," she said, adding that her bank was already working with the EBRD on joint initiatives in the region to develop this capacity.

- **New opportunities to offer wider range of financing tools**

For banks looking to do business in Central Asia, traditional short-term trade finance and export finance continue to be the most commonly required types of financing in the region, said Kavrakova, speaking specifically about Uzbekistan and Kazakhstan.

"We do a lot of classical short-term up to one-year trade finance and provide longer tenors on financing with the help of European export credit agencies and China's Sinosure," she said.

Unsworth said the region's commodity producers are edging towards more complex financing structures and away from pre-payment models. "The next evolution in the market is to move it to pre-export finance. It is on the cusp of change. It is progressing in the right direction, but it is not quite there yet," he said.

The EBRD as a bank had doubled its overall investment in Central Asia to €2.2billion in 2024 compared to 2023, O'Mulloy said. The bank's trade facilitation programme continues to grow in line with the rapid economic growth in the region and the rising capex demands. O'Mulloy also noted there is a growing demand for longer tenors on financing.

"The EBRD can offer guarantees of up to five years where the underlying goods are green, exported from an EBRD country of operation (CoOs) or flows between two EBRD COOs – so we can fill that sweet spot between short-term financing and ECA financing. When we look at the availability of commercial lines – they are there for one year but then capacity dries up," he said. "We as the EBRD are there, but there is still not enough capacity given the economies are growing so fast," he concluded.

In conclusion, while there are certainly risks doing business in Central Asia – heightened by the geopolitical situation surrounding the region – there are a widening range of opportunities for those equipped with the right risk appetite and regional partners. Fast-growing economies such as Uzbekistan are particularly appealing.