



GLOBAL EVENT OF LANDLOCKED
DEVELOPING COUNTRIES AND
TRANSIT COUNTRIES ON TRADE AND
TRADE FACILITATION



TRADE, TRADE FACILITATION AND TRANSIT TRANSPORT ISSUES FOR LANDLOCKED DEVELOPING COUNTRIES

Executive Summary

GOVERNMENT OF MONGOLIA

IN PARTNERSHIP WITH

UNITED NATIONS OFFICE OF THE HIGH REPRESENTATIVE FOR LEAST
DEVELOPED COUNTRIES, LANDLOCKED DEVELOPING COUNTRIES AND
SMALL ISLAND DEVELOPING STATES

UNITED NATIONS DEVELOPMENT PROGRAMME

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

AND

THE MISSION OF PARAGUAY IN GENEVA



UN-OHRLLS

UNITED NATIONS OFFICE OF
THE HIGH REPRESENTATIVE
FOR LEAST DEVELOPED
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Executive summary

A mid-term review of the Almaty Programme of Action is scheduled for 2008. The review will give the landlocked and transit developing countries an opportunity to carry out a comprehensive assessment of progress in achieving the objectives of the Programme of Action.

Against this background, the Government of Mongolia, in partnership with UNOHRLLS, UNDP, UNCTAD and the Mission of Paraguay in Geneva, is organizing a conference to address key trade and development issues facing landlocked developing countries (LLDCs) in Ulaanbaatar, Mongolia in late August 2007. The meeting will focus on trade, trade facilitation and transit transport issues in relation to the Doha Development Agenda (DDA) negotiations. The conference will provide an opportunity to discuss emerging trade issues and highlight the importance of shared perspectives on trade facilitation and transit challenges of LLDCs and their transit developing countries, and common approaches to addressing these issues. Additionally, the meeting will be an occasion for LLDCs, transit developing countries and international partners to discuss in detail the modalities for the 2008 mid-term review of the Almaty Programme of Action. The subject matter of the conference is intended to complement the Ouagadougou conference held in June 2007 which focused on trade and transport infrastructure.

The conference in Ulaanbaatar will bring together LLDC representatives in Geneva and New York, capital based-officials, representatives of transit developing countries and representatives of regional and international organizations. The global event will have three main objectives:

- Review the joint efforts undertaken at the United Nations and the WTO pursuant to the Almaty Programme of Action and the Asuncion Platform for the Doha Development Round respectively;
- Identify key trade, trade facilitation and transit issues at both the multilateral and regional levels and areas of cooperation with international partners; and
- Assist LLDCs in revitalizing their coordinated and collective efforts to win greater international recognition in international trade talks, including through technical assistance and international support.

This publication has been prepared as a pre-conference document on the key issues to foster constructive discussion and dialogue among LLDCs and transit countries during the conference. It is made up of six chapters, comprising papers contributed by UNCTAD, UNECE, UNOHRLLS, UNDP and the Mission of Paraguay in Geneva on trade-related challenges and effective strategies to overcome them.

It is expected that the publication will be a valuable resource not only in preparation for the conference but also in relation to ongoing policy discussions and initiatives that are relevant to landlocked and transit developing countries.

Key issues and evolving LLDCs engagement

Lack of territorial access to the sea, isolation, remoteness from world markets, and high transport and transit costs experienced by landlocked developing countries (LLDCs) impose serious constraints on their overall socio-economic development, including their trade competitiveness¹. As a result, landlocked developing countries are among the poorest countries in the world: out of 31 such countries, 16 are classified as least developed and half of the LLDCs are in Africa².

According to the Millennium Project Report of 2005, the annual growth rate of landlocked developing countries is 0.7 percent less than coastal countries, as a consequence of their geographical location. Recent oil price increases have brought even greater urgency to the difficulties faced by energy-importing LLDCs.

These specific problems have contributed to entrenched poverty in many LLDCs and greatly limit their effective participation in international trade. Unless the structural problems facing LLDCs are adequately addressed, there is a real risk of relative lack of integration in the world economy, especially for those LLDCs whose neighbouring export and transit markets are similarly poor.

The close linkage between transport and transit costs, international trade and economic growth has led LLDCs to take an increasingly active role in multilateral, regional and bilateral discussions and negotiations, especially in areas such as trade facilitation where LLDCs expect to derive significant benefits from a reform of the multilateral trading system, closer cooperation with transit neighbouring states and the elimination of physical and non-physical barriers to efficient transit transport. The World Bank estimates that raising global capacity in trade facilitation by as much as half of the global average would increase world trade by US\$ 377 billion, an increase of 9.7 percent.

Negotiations on trade facilitation are a key element of the Doha Development Agenda (DDA), which is aimed at rebalancing the multilateral trading system in favour of developing countries. However, the conference in Ulaanbaatar in August 2007 will take place at a time of great uncertainty over the future of the Doha Round as it has become evident that political will to conclude the negotiations is in short supply. The importance of political will to conclude the negotiations was recognized by LLDC Trade Ministers at the Meeting of Landlocked Developing Countries Ministers Responsible for Trade on 10 August 2005 in Asuncion, Paraguay.

The Ministers adopted the “Asuncion Platform for the Doha Development Round”, which for the first time articulated a common platform of the landlocked developing countries in the ongoing World Trade Organisation (WTO) negotiations. Similarly, the LLDC Ministerial Declaration at the 6th WTO Ministerial Conference in Hong Kong in December 2005 urged WTO members to

¹ A landlocked country is defined as a territory that does not have direct access to the sea. In order to trade with the rest of the world, it must transship goods through one or more transit countries to reach the sea.

² The 31 landlocked developing countries are Afghanistan, Armenia, Azerbaijan, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Lesotho, Malawi, Mali, Moldova, Republic of Mongolia, Nepal, Niger, Paraguay, Rwanda, Swaziland, Tajikistan, The Former Yugoslav Republic of Macedonia, Turkmenistan, Uganda, Uzbekistan, Zambia and Zimbabwe.

address the special problems and vulnerabilities of landlocked countries through measures to enable their greater participation in the international trading system. This echoed the Almaty Programme of Action adopted at the 2003 International Ministerial Conference on Landlocked and Transit Developing Countries in Almaty, Kazakhstan.

Challenges

LLDCs are characterised by lack of direct access to the sea, remoteness from major markets, small populations and equally small markets. In many cases, the transit developing countries neighbouring LLDCs are also equally poor. According to the 2006 *Human Development Report*, LLDCs score poorly on many human development indicators, with 10 of the world's 20 lowest-ranking countries being landlocked. Collectively, LLDCs accounted for only 2 percent of the developing world's total gross domestic product (GDP) in 2005. External debt is a serious constraint on the ability of these poor countries to pursue economic development and reduce poverty. Official development assistance (ODA) remains the main source of external finance for LLDCs. For instance, only 3.7 percent of ODA in 2005 was allocated to the development of transport, storage and communications infrastructure. Foreign aid receipts fall far short of what is needed to make a long-lasting impact in the development and maintenance of transport infrastructure and allied services. Without foreign aid, LLDCs cannot maintain and develop efficient transit transport systems.

The external trade of the majority of LLDCs is marginal compared with other developing countries, with the exception of Azerbaijan, Botswana, Kazakhstan, Turkmenistan and Uzbekistan. The heavy reliance of LLDCs on international trade, especially imports, has generated trade deficits year after year, a persistent feature of these economies and an indication of their vulnerability to external shocks.

Another feature of the trading patterns of LLDCs is the high proportion of primary commodities or low-processed raw materials and fuel exports. Typically, LLDCs have a narrow production and export base, heavily dependent upon a few primary commodities, which make them particularly vulnerable to external shocks. While there are initiatives to promote export diversification and value-added processing in general, the results on the ground are poor due to a narrow manufacturing base and supply-side constraints. Only very few LLDCs export manufactured goods, mainly low-tech goods such as textiles, leather products and handicrafts by countries such as Armenia and Macedonia.

On the other hand, the trade in services has proved to be more promising for LLDCs. The export of services, including tourism, transport services, and information technology-based services such as call centres, financial and other information-related services, has grown as it is not hampered by distance and other trade barriers.

On average LLDCs have five trading partner countries from the developed world for the bulk of their trade and a narrow range of mainly commodity or low-value export products, which is a further indication of their vulnerability. Likewise, neighbouring transit developing countries rely heavily on the transshipment of goods to and from LLDCs and they exhibit similarly low levels

of economic diversification. In an effort to counter this situation, LLDCs and developing transit countries have increased South-South trade since the early 1990s.

In order to address the narrow productive base, LLDCs have provided incentives with varying levels of success to attract foreign direct investment (FDI) in priority economic sectors, albeit with great difficulty and with limited results. Typically for investors, the host country's physical infrastructure, and reliable and efficient transport and communication services are among the key determinants for selecting a country.

LLDCs with high transport costs are unattractive to export-oriented FDI because the firms based in these countries will be much less competitive in international markets. The other inhibitors of FDI have already been mentioned, among them remoteness from rich country markets, lack of direct access to seaports, a narrow resource base, a small domestic market and, for some LLDCs, poor physical infrastructure, weak institutional and productive capacities, and outdated transport equipment. The exception is countries with high-value commodities such as oil and minerals. In recent years, the oil exporting countries have received large inflows of investment to develop oil fields and pipelines. In 2004, Kazakhstan, Azerbaijan, Chad and Bolivia accounted for over 70 percent of the total FDI flowing to LLDCs.

Indeed, the landlocked condition of LLDCs and the constraints it imposes on productive capacities and transport infrastructure dictate the level and pace of development and competitiveness in the international market. LLDCs are often at the mercy of the bureaucracy, customs procedures and the quality of the services and infrastructure of their neighbouring transit countries. Landlocked countries incur transit charges paid to transit countries for using their facilities and services. These include port charges, road tolls, forwarding fees, customs duties and transit quota restrictions. For example, on certain transport routes in Africa there are an unjustifiably high number of road blocks and check points, causing delays and inflating transport costs. These barriers are also a violation of existing international conventions as well as bilateral and regional cooperation agreements promoting the free flow of transit goods³.

Moreover, prohibitive transport costs have a greater impact on reducing LLDC's participation in international trade than tariffs or other trade barriers. Transport costs can be three times more than the tariffs imposed by developed countries on goods from LLDCs. Port and inland transportation costs can represent as much as two-thirds of the total door-to-door costs for landlocked countries⁴. In many LLDCs, multimodal transportation, an important source of improved shipping efficiency, is not widely available due to the infrequent use of containers for inland transport.

A way around these costs is for landlocked countries and their coastal neighbours to enter into transit agreements that define the conditions, obligations and rights under which the parties will use the

³ There are international conventions and agreements, such as the United Nations Convention on the Law of the Sea, that give landlocked countries the right to transit through transit countries by all means of transport to access the sea. However, in practice bilateral agreements between landlocked countries and transit neighbours often take precedence over multilateral agreements to the detriment of transit transport.

⁴ Statement by Anwarul K. Chowdhury at the Opening Session of the Latin American Regional Meeting of Landlocked and Transit Developing Countries on Transit Transport Cooperation. Asuncion, 12 March 2003.

transit facilities, including transit corridors, roads, inland waterways and rail transport to facilitate trade with the least amount of problems. Regional integration, through cooperative endeavours such as transport and development corridors, is also another way for countries to address obstacles arising from transit transport difficulties.

Development corridors are an efficient way of promoting regional integration between LLDCs and transit countries. These initiatives can lead to developments such as a coordinated approach to international freight traffic, a uniform legislative framework⁵ and harmonised documents and procedures consistent with international practice. These corridors include roads, rail links, dry ports, warehouses, distribution hubs and intermodal freight transport for the movement of goods between an economic zone or industrial centre in a LLDC and a seaport in a transit country. Examples of such initiatives are the Maputo Corridor linking landlocked countries in Southern Africa to the Indian Ocean, developed by the governments of Mozambique and South Africa in the 1990s financed as a build-operate-transfer project through a public-private partnership; the Walvis Bay corridor of Namibia also linking Southern African countries to the Atlantic coast; a proposed scheme to develop a “bi-oceanic” corridor linking the Atlantic and Pacific coasts of the South American continent; and the Transport Corridor Europe Caucasus Asia (TRACECA), a pan-European or Eurasian transport corridor passing through the Caucasus and the Caspian Sea to Central Asia.

Indeed, the Almaty Declaration recognises the special needs of landlocked and transit developing countries. The Almaty Declaration has endorsed specific actions to address LLDC needs by making operational a ten year programme known as the Almaty Programme of Action (APoA). APoA has identified seven priority areas for infrastructure development and maintenance, including rail transport, road transport, ports, inland waterways, pipelines, air transport and communications. This initiative involves the LLDCs, neighbouring transit developing countries, and multilateral and bilateral donors.

Landlocked countries select transport corridors and negotiate transit agreements with their transit neighbours on the basis of several factors: efficient trade facilitation and minimal bureaucracy, availability of facilities, competent transport operations, traffic constraints, and restrictions on the free flow of trade and costs. As an insurance policy, LLDCs may have several transit agreements with several transit countries as alternatives for access to seaports to ensure the free flow of goods and avoid unforeseen border closures. Other means to facilitate trade between LLDCs and transit countries are sharing harmonised documents and procedures, exchanging shipping documentation using information technology such as the Automated System for Customs Data (ASYCUDA) to expedite the flow of trade and minimise delays and cost.

Legal and regulatory reforms are sometimes necessary to harmonise conflicting laws and regulations of landlocked and transit countries that inhibit trade. Examples include hours of business, restrictions on the operation of commercial transport vehicles by foreigners, monopolies, and privatisation to

⁵ An example of a uniform legislative framework would be one with common railway codes, civil aviation or inland water shipping acts, transport codes, customs legislation, freight forwarding laws and legislation on the transport of dangerous goods.

promote competition by encouraging participation of the private sector, both foreign and local, in certain industries such as logistics⁶, railroads and port operations. Institutional reform is also necessary to create or strengthen institutions, including national legislation, to enforce international conventions or agreements. These agreements, such as the UN Convention on the Law of the Sea and others, permit access to the sea for landlocked countries, equal treatment of transit transport operators, freedom of navigation on inland waterways and other trade facilitating initiatives.

Landlocked and transit developing countries need to adopt policies that cut red tape in freight operations, reducing delays in customs clearance procedures, combating corruption and addressing infrastructural weaknesses. Development and maintenance of transport infrastructure on a sustainable basis has been achieved by some countries using a variety of funding mechanisms. For example, construction and maintenance of infrastructure can be funded in a sustainable manner through the collection of vehicle charges, road taxes, fuel taxes and road charges. These policies need to be designed to enable trade to flow freely and create incentives that attract investors to participate in two specific areas: the development and operation of transport corridors and the development of export-driven sectors. While these reforms constitute the basic requirements for attracting investment, landlocked countries that are near major industrial markets have an edge over those that are geographically isolated.

The dependence of LLDCs on neighbouring transit countries for access to seaports for their merchandise exports and imports requires a multilateral system of international trade rules that ensures the quick and safe passage of goods and services at competitive prices. Indeed, 22 LLDCs have been engaged in WTO trade facilitation negotiations to ensure that the interests and special needs of LLDCs are taken into account. The issues that are being addressed, aside from farm reform, and gaining better market access for manufactured goods and services, policy space and various forms of special and differential treatment for the developing and least developed countries. include lowering the costs associated with customs compliance; the simplification and harmonisation of international trade procedures; transparency of transit country regulations and equal treatment of business operators, particularly transport operators; removal of trade barriers; and enhancing the capacity for trade facilitation.

LLDCs have been very successful in establishing a coordinating forum – the Geneva Group – at the WTO. While there is reluctance among certain WTO member states to formally recognise LLDCs as a separate grouping of countries requiring special consideration, there is a growing recognition among the member states of the special needs of LLDCs. In addition, the WTO accession process for some LLDCs has been particularly burdensome, prompting requests for a delay in the implementation or a relaxation of the obligations associated with WTO accession.

⁶ *The transport and forwarding sector is usually a target for reform. Examples of inefficiencies or lack of competitiveness include monopolies such as state-owned transport and freight forwarding firms where restructuring is necessary to allow competition and private sector involvement. In other instances, governments may need to discourage or deregister informal transport operators who disregard insurance and safety requirements such as the roadworthiness of vehicles and the need to observe cargo weight limits.*

Lessons learned

As previously noted, the cost of international transport services is an important determinant of a developing country's trade competitiveness. High transport costs reduce the ability of LLDCs to produce at lower cost, especially manufactured goods. Higher transit costs make imports expensive and exports uncompetitive, thereby limiting economic growth and undermining a country's welfare.

Only a few landlocked countries have succeeded in overcoming their geographical disadvantages. The main features that stand out for high- and middle-income landlocked countries is their integration into the world economy by achieving economic diversification through the production of high value-added goods and services. Switzerland is the epitome of a successful, industrialised high-income landlocked country that exports high-value goods such as pharmaceuticals, chemicals, precision instruments and machinery via modern multimodal transport networks based on roads, tunnels, the river Rhine, air and rail transport, and a well-functioning customs system. Switzerland has also developed efficient service sectors including tourism, financial services, and a variety of professional services.

Hungary, a landlocked transition country with an increasingly diversified economy has similarly developed the means to access seaports to the east, west and south by promoting cooperation with neighbouring transit countries. Hungary has partnered with its neighbours to develop transit corridors, utilise inland waterways such as the Danube river for navigation and an established rail network. Regional cooperation among landlocked and transit developing countries through joint initiatives such as development of transit corridors is clearly an important lesson for LLDCs.

Investment in human development is also critical to raise the stock of human capital and skills, especially for participation in the service sectors and information technology-based applications which are growing in importance in the world economy.

LLDCs that want to pursue an export led growth strategy based on labour-intensive manufacturing need to appreciate that low transit costs, the competitiveness of domestic firms and the cost of imported intermediate goods play a critical role in determining the long-term viability of export manufacturing. The import content and inventory costs in most labour-intensive manufacturing tend to be high and the threat of rising transport costs is ever present for LLDC manufacturers. High transport costs alone can make these operations uncompetitive and prevent the majority of LLDCs from participating in the international market.

Improved and modern transit transport infrastructure, along with a sound system of trade facilitation, is the lifeline of any landlocked country in today's world. This is why the trade facilitation negotiations taking place at the WTO are critical. But equally important is efforts at economic diversification by LLDC governments alongside adequate support and investment in trade facilitation and transport infrastructure by development partners to enhance the integration of LLDCs into the world trading system.