



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

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
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Abbreviations and Acronyms

ACIS	Advance Cargo Information System
ACT	Agreement on Textiles and Clothing
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
APoA	Almaty Programme of Action
ASYCUDA	Automated System for Customs Data
ATRAR	Association des Transporteurs et Transitaires Rwandais
BOT	Build Operate Transfer
CEFTA	Central European Free Trade Agreement
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale
CIF	Cost Insurance Freight
CIS	Commonwealth of Independent States
CMNI	Convention on the Contract for the Carriage of Goods by Inland Waterways
COMECON	Council for Mutual Economic Assistance
COMESA	Common Market for Eastern and Southern Africa
CTD	Committee on Trade and Development
DDA	Doha Development Agenda
DS	Dedicated Session
EAC	East African Community
EARC	East African Railways Corporation
EBRD	European Bank for Reconstruction and Development
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EFTA	European Free Trade Agreement
EIB	European Investment Bank
EU	European Union
EVI	Economic Vulnerability Index
FAA	US Federal Aviation Administration
FDI	Foreign Direct Investment
FOB	Free on Board
GATT	General Agreement on Tariffs and Trade
GC	General Council
GDP	Gross Domestic Product
GNI	Gross National Income
GSTP	Global System of Trade Preferences

HDI	Human Development Index
HGV	Heavy goods vehicle
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
ICA	Infrastructure Consortium for Africa
ICD	Internal Clearance Depot
ICT	Information and Communication Technology
IDA	International Development Agency
IGAD	Intergovernmental Authority on Development
IIRSA	Initiative for Integration of Regional Infrastructure in South America
IMF	International Monetary Fund
ISRT	Inter-State Road Transit Convention
IST	Inter-State Road Transport Convention
KPA	Kenya Ports Authority
KRB	Kenya Road Board
KTA	Kenya Transporters' Association
LDC	Least Developed Country
LLDC	Landlocked Developing Country
MCC	Malawi Cargo Centre
MERCOSUR	Mercado Común Sudamericano
MFN	Most Favoured Nation
MOWCA	Maritime Organization of West and Central Africa
MTN	Multilateral Trade Negotiation
NAMA	Non-Agricultural Market Access
NCTI	Northern Corridor Transport Improvement
NCTS	New Computerised Transit System
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
NIC	Newly Industrialised Country
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
RAFU	Uganda Road Agency Formation Unit
RCBG	Regional Customs Bond Guarantee
RCTD	Road Customs Transit Document
RVR	Rift Valley Railways
SADC	Southern African Development Community
SDI	Spatial Development Initiative

SDT	Special and Differential Treatment
SECI	Southeast European Cooperative Initiative
SIDS	Small Island Developing States
SIM	Subscriber Identity Module
SMEs	Small and Medium-Sized Enterprises
SPECA	UNESCAP Special Programme for Economies of Central Asia
SPS	Sanitary and Phytosanitary Measures
SSA	Sub-Saharan Africa
SSATP	Sub-Saharan Africa Transport Programme
STAP	NEPAD's Short Term Action Plan
SVE	Small Vulnerable Economies
TAZARA	Tanzania Zambia Railway Authority
TBT	Technical Barriers to Trade
TFNG	Trade Facilitation Negotiating Group
TFYR	The Former Yugoslav Republic of Macedonia
THA	Tanzania Harbours Authority
TIR	Transit International Routier
TRACECA	Transport Corridor Europe Caucasus Asia
TRC	Tanzania Railway Corporation
TRIE	Transport Routier Inter-Etats
TTCA	Northern Corridor Transit Transport Coordination
TTFSE	Trade and Transport Facilitation in Southeast Europe Project
UCTA	Uganda Commercial Truck Association
UEMOA	West African Economic and Monetary Union
UN / EDIFACT	United Nations Electronic Data Interchange for Administration, Commerce and Transport
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
UNECLAC/CEPAL	United Nations Commission for Latin America and the Caribbean
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCWA	United Nations Economic and Social Commission for Western Asia
UNOHRLLS	United Nations Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing
USAID	United States Agency for International Development
WPSE	Work Programme on Small Economies

Preface

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 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.

Introduction and Overview

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 competitiveness.¹ 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 Africa.²

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

1A 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 tranship goods through one or more transit countries to reach the sea.

2² 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.

WTO members to 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.

This publication reviews the issues underlying the common positions that have been taken by LLDC governments to address the special difficulties they face. 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.

Chapter 1, “The Development Quandary of Landlocked Developing Countries”, by UNOHRLLS, analyses the socio-economic situation of LLDCs and provides policy directions for their effective integration into the global economy.

Chapter 2, “Effective Participation of Landlocked Developing Countries in the Multilateral Trading System”, by UNCTAD, presents an overview of the economic situation of LLDCs with an analysis of their recent trade performance and the ongoing WTO trade negotiations.

Chapter 3, “Transport Infrastructure for Transit Trade of the Landlocked Countries in West, Central and East Africa”, also by UNCTAD, presents case studies on transport infrastructure issues in West, Central and East Africa.

Chapter 4, “The Landlocked Developing Countries Group in Geneva: Past, Present and Future Activities”, by the Mission of Paraguay in Geneva focuses specifically on trade facilitation negotiations at the WTO.

Chapter 5, “Landlocked Countries: Opportunities and Challenges”, by the UNECE provides insights on how a number of landlocked countries in different parts of the world overcame unfavourable geographical conditions by adopting viable economic strategies.

Chapter 6, “Conclusion”, by UNDP, summarises the main priority areas for intervention to address typical LLDC constraints as well as lessons that can be learned from the experience of successful landlocked countries.

Chapter1. The Development Quandary of Landlocked Developing Countries³

I. Introduction

Advances in modern technology and communications have facilitated an acceleration of the socio-economic growth of many developing countries. However landlocked countries, that is, countries that do not possess a seacoast, have not yet realized these benefits and are among the most disadvantaged and marginalised countries in the world. For landlocked developing countries (LLDCs), in particular, lack of access to seaports, their remoteness and isolation from major markets, continue to act as impediments to their development.

This review contrasts the relative underdevelopment of LLDCs with the varying degrees of progress that have been achieved by the countries that have access to the sea. While the vast majority of developing countries have made some advances in achieving their social and economic goals, the LLDCs constitute a specific subgroup of countries that has performed poorly because of their landlockness.

II. Economic and social underdevelopment

There are 42 landlocked countries in the world today. Except for the relatively wealthy landlocked states in Western and Central Europe (for example, Switzerland, Austria, the Czech Republic, Hungary and Slovakia), the rest are all poor and 31 landlocked countries can accurately be classified as LLDCs. Sixteen of the LLDCs are also categorized as least developed countries (LDCs).⁴ Notably, there are more LLDCs in Sub-Saharan Africa (SSA) than in any other region in the world.

Taken as a whole, a distinguishing feature of LLDCs is their comparatively poor economic and social performance when compared with other developing country groups. LLDCs are among the poorest of the developing countries, with the weakest economic growth rates and the direst social development records. Further, the development gap between LLDCs and coastal developing countries appears to be growing rapidly.

High transport costs undermine the competitiveness of LLDCs in the international market as well as their ability to produce at lower costs. Firstly, they have a significant trade reducing effect, which in turn has a negative impact on GDP. Secondly, high transport costs diminish the purchasing power and consumption levels of national residents, affect the activities of producers relying on imported goods and are likely to spur inflation. Finally, they decrease the rate of return on capital required by investors to finance a project within a country.

To address these issues, the General Assembly convened in 2003 a United Nations conference which adopted the Almaty Programme of Action: Addressing the Special Needs

³ This paper, by Sandagdorj Erdenebileg, is an updated and revised version of the first chapter of “Geography Against Development – A case for Landlocked Developing Countries”, UN-OHRLLS, 2006.

⁴ The three criteria for the classification of a country as an LDC, used by the United Nations, are: low-income, based on a three-year average estimate of the gross national income (GNI) per capita (under \$750 for inclusion, above \$900 for graduation); human resource weakness, involving a composite Human Assets Index (HAI) based on indicators of: (a) nutrition; (b) health; (c) education; and (d) adult literacy; and economic vulnerability, involving a composite Economic Vulnerability Index (EVI) based on indicators of: (a) the instability of agricultural production; (b) the instability of exports of goods and services; (c) the economic importance of non-traditional activities (share of manufacturing and modern services in GDP); (d) merchandise export concentration; and (e) the handicap of economic smallness (as measured through the population in logarithm); and the percentage of population displaced by natural disasters. See the Report on the sixth session of the United Nations Committee on Development Policy, 29 March - 2 April 2004, document E/2004/33.

of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries.⁵ The over-arching goal of Almaty Programme of Action (APoA) is to forge partnerships to overcome the special problems of LLDCs caused by lack of territorial access to the sea and remoteness and isolation from world markets. APoA stipulates specific measures to establish efficient transit transport systems, recognizing the link between transport and international trade and economic growth. These specific actions are to be implemented in five priority areas, namely (1) fundamental transit policy issues, (2) infrastructure development and maintenance, (3) international trade and trade facilitation, (4) international support measures, and (5) implementation and review. APoA aims to (a) secure access to and from the sea by all means of transport according to applicable rules of international law; (b) reduce costs and improve services so as to increase the competitiveness of exports; (c) reduce the delivered costs of imports; (d) address problems of delays and uncertainties in trade routes; (e) develop adequate national networks; (f) reduce loss, damage and deterioration en route; and (g) open the way for export expansion.

Economic performance of LLDCs

The adverse geographical attributes that encumber LLDCs represent an important but often ignored factor explaining their dismal economic showing over the past few decades. In general, coastal economies enjoy higher incomes than landlocked ones. Only the landlocked countries in Europe have relatively higher incomes.

Collectively, LLDCs accounted for just 2 percent of the developing world's total gross domestic product (GDP) in 2005. The average GDP of landlocked developing economies is approximately 57 percent of that of their maritime neighbours.⁶ Landlocked countries also trade 30 percent less on average than coastal countries.⁷

LLDCs' share of the world economy is unlikely to improve substantially if they maintain their current level of economic performance. The recent increases in the rate of growth of GDP of LLDCs, as shown in Tables 1 and 2, were driven mainly by higher commodity prices combined with some improvements in economic performance. This is especially true for oil-exporting countries, such as Kazakhstan, Turkmenistan and Uzbekistan. These countries accounted for over 36 percent of the total GDP of LLDCs and 50 percent of the total exports of LLDCs. Despite the disparities among LLDCs, as a group, the annual GDP per capita has been on the rise in these countries. However, the transit developing countries grew faster than the LLDCs.

⁵ Almaty Programme of Action: Addressing the Special Needs and Problems of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries (2003), United Nations, document A/CONF.202/3.

⁶ Faye, Michael A., and others, "The Challenges Facing Landlocked Developing Countries", *Journal of Human Development*, Vol. 5, No. 1, March 2004.

⁷ Irwin and Tervio, "Does Trade Raise Income? Evidence from the 20th Century", *Journal of International Economics*, vol. 58, pp. 1-58.

Table 1: Gross Domestic Product of LLDCs (2003-2005)

<i>LLDCs</i>	<i>GDP (US\$ millions)</i>			<i>GDP per capita (US\$)</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Afghanistan	4,585	5,952	7,308	168	186	218
Armenia	2,807	3,577	4,903	924	1,175	1,614
Azerbaijan	7,276	8,680	12,561	876	1,039	1,493
Bhutan	609	729	844	296	334	424
Bolivia	8,092	8,713	9,334	916	974	1,059
Botswana	8,209	9,731	10,317	4,144	4,804	5,014
Burkina Faso	4,182	4,824	5,171	324	386	408
Burundi	595	664	800	85	94	112
Central African Rep.	1,195	1,307	1,369	286	313	328
Chad	2,671	4,306	5,469	299	466	507
Ethiopia	7,942	9,733	11,174	90	106	120
Kazakhstan	30,834	43,152	57,124	2,076	2,908	3,783
Kyrgyzstan	1,919	2,212	2,441	374	425	464
Lao PDR	2,138	2,501	2,875	376	434	485
Lesotho	1,065	1,367	1,450	598	737	744
Macedonia, FYR	4,630	5,368	5,766	2,285	2,644	2,778
Malawi	1,764	1,903	2,072	143	151	166
Mali	4,362	4,874	5,305	337	368	383
Moldova, Rep. of	1,981	2,595	2,917	493	617	706
Mongolia	1,274	1,612	1,880	230	253	273
Nepal	5,870	6,732	7,391	193	207	232
Niger	2,731	3,053	3,405	945	1,155	1,248
Paraguay	4,608	5,109	7,328	468	616	694
Rwanda	1,684	1,835	2,153	192	205	234
Swaziland	1,906	2,517	2,731	1,840	2,317	2,507
Tajikistan	1,554	2,076	2,312	244	322	360
Turkmenistan	5,978	6,741	8,067	1,016	1,079	1,205
Uganda	6,250	6,817	8,724	240	281	316
Uzbekistan	10,128	12,030	13,951	393	458	466
Zambia	4,327	5,423	7,270	381	474	627
Zimbabwe	7,913	4,712	3,372	389	237	169
Landlocked developing countries	151,077	180,845	217,786	697	831	940
Transit developing countries	4,119,481	4,889,979	5,776,860	1,276	1,519	1,760
Developing countries	7,156,359	8,444,971	9,969,591	3,298	3,715	4,131
World	36,905,700	41,462,020	44,645,440	8,107	9,214	9,920

Sources: World Bank, World Development Indicators Online (GDP (at current prices, current exchange rates), and GDP growth rate (at current international dollars)).

Table 2: Gross Domestic Product Growth Rate (2003-2005)

<i>LLDCs</i>	GDP growth rate (annual percentage)			GDP per capita growth rate (US\$)		
	2003	2004	2005	2003	2004	2005
Afghanistan	15.7	8.0	14.0	..	..	..
Armenia	14.0	10.5	14.0	14.4	10.4	14.3
Azerbaijan	11.2	10.2	26.2	10	10	26
Bhutan	7.1	7.6	6.1	..	..	..
Bolivia	2.9	3.9	4.1	0.4	1.6	2.1
Botswana	6.3	5.9	6.2	3.3	8.5	5.7
Burkina Faso	6.5	3.9	4.8	3.1	1.3	3.8
Burundi	-1.2	4.8	0.9	-4.1	1.3	-2.8
Central African Rep.	-7.6	1.3	2.2	-5.8	0.5	1.3
Chad	14.9	29.5	5.6	11.5	28.8	5.2
Ethiopia	-3.1	12.3	8.7	-6.2	9.8	6.3
Kazakhstan	9.3	9.6	9.7	9.6	9.7	9.6
Kyrgyzstan	7.0	7.0	-0.6	5.7	5.8	-1.7
Lao PDR	6.1	6.4	7.0	..	..	..
Lesotho	3.1	3.2	1.2	3.2	2.8	1.5
Macedonia, FYR	2.8	4.1	4.0	3.2	2.3	3.8
Malawi	6.1	7.1	2.6	3.8	4.4	-0.1
Mali	7.4	2.2	6.1	0.4	0.2	-0.6
Moldova, Rep. of	6.6	7.4	7.1	7.0	7.7	7.4
Mongolia	5.6	10.7	6.2	1.4	1.2	0.3
Nepal	3.4	3.7	2.7	1.0	-4.0	3.3
Niger	5.3	0.0	4.5	1.0	-4.0	3.3
Paraguay	3.8	4.1	2.9	1.4	1.7	0.5
Rwanda	1.0	4.0	6.0	-0.7	2.5	4.2
Swaziland	2.4	2.1	1.8	..	..	..
Tajikistan	10.2	10.6	7.5	9.8	9.1	5.4
Turkmenistan	..	..	..	1.8	3.0	8.1
Uganda	4.7	5.5	6.6	0.8	2.1	2.9
Uzbekistan	4.2	7.7	7.0	2.9	6.1	5.5
Zambia	5.1	5.4	5.2	3.3	3.7	3.5
Zimbabwe	-10.4	-3.8	-6.5	-8.0	-4.2	-4.6
Landlocked developing countries	5.0	6.5	5.8	2.7	4.4	4.1
Transit developing countries	5.3	5.9	6.0	3.3	4.2	4.3
Developing countries	5.5	7.3	6.7	2.2	4.5	3.8
World	15.7	8.0	14.0	2.1	3.4	3.1

Sources: United Nations, UN Statistical Division Online Databases [GDP per capita (at current prices, current exchange rates), GDP per capita growth rate (at constant 2000 USD)].

Foreign direct investment

The existence of a well-functioning transport system in a country is a prerequisite not only for facilitating trade but also for attracting private foreign direct investment (FDI). Among the main economic determinants that investors consider when selecting a host country are physical infrastructure and the availability of reliable and efficient transport and communication services. Not surprisingly, the LLDCs have received only a small proportion of international FDI. Inward flows of FDI for LLDCs stood at a combined US\$

6.4 billion in 2005, or just 0.7 percent of total world flows (US\$ 916.3 billion), and 2 percent of total flows received by all developing countries (US\$ 555.9 billion).

In 2004, LLDCs experienced the highest inflow of FDI, which reached US\$ 10.7 billion from US\$ 8.5 billion in 2003. The surge in investment was linked mainly to substantial capital flows to oilfields in the Caspian Sea, the construction of the Baku-Tbilisi-Ceyhan pipeline to Turkey, the Atasu-Alashankou pipeline to China and the exploitation of the Doba oilfield in Chad. The combined shares of Kazakhstan, Azerbaijan, Chad and Bolivia alone accounted for over 70 percent of total FDI flowing to LLDCs.

In contrast, transit developing countries⁸ share of the developing world's FDI was 44 percent in 2005, down from 58 percent in 2002. Most transit developing countries have relatively higher income levels, a favourable geography and higher population densities, all of which explain the high levels of FDI of these countries.

Table 3: Foreign Direct Investment

<i>LLDCs</i>	<i>FDI inflow (US\$ millions)</i>			
	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Afghanistan	1	2	1	1
Armenia	144	157	217	220
Azerbaijan	1,393	3,285	3,556	1,680
Bhutan	..	1	1	1
Bolivia	677	197	65	-277
Botswana	403	418	391	346
Burkina Faso	15	29	14	19
Burundi	..	..	-2	-1
Central African Rep.	6	3	-13	6
Chad	924	713	478	705
Ethiopia	255	465	545	205
Kazakhstan	2,590	2,092	4,113	1,738
Kyrgyzstan	5	46	175	47
Lao PDR	25	19	17	28
Lesotho	27	42	53	47
Macedonia, FYR	78	95	157	100
Malawi	6	4	-1	3
Mali	244	132	101	159
Moldova, Rep. of	133	78	154	225
Mongolia	78	132	93	182
Nepal	-6	15	..	5
Niger	5	11	20	12
Paraguay	6	21	41	219
Rwanda	3	5	8	8
Swaziland	90	-61	60	-14
Tajikistan	36	14	272	54

⁸ The transit developing countries are Angola, Argentina, Bangladesh, Benin, Brazil, Chile, China, Cambodia, Cameroon, Congo, Côte d'Ivoire, Djibouti, Eritrea, Ghana, India, Iran, Kenya, Mozambique, Myanmar, Namibia, Nigeria, Pakistan, Peru, Senegal, Somaliland, South Africa, Thailand, Tanzania, Togo, Uruguay and Vietnam

<i>LLDCs</i>	<i>FDI inflow (US\$ millions)</i>			
	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Turkmenistan	100	100	-15	62
Uganda	185	202	222	258
Uzbekistan	65	70	1	45
Zambia	82	172	239	259
Zimbabwe	26	4	9	103
Landlocked developing countries	7,593	8,463	10,972	6,447
Transit developing countries	94,437	91,687	112,580	141,336
Least developed countries (less LLDCs)	4,825	9,053	7,057	7,964
Developing countries	162,055	172,846	260,236	320,670
Developed countries	442,766	360,831	410,941	555,927
World	617,732	557,869	710,755	916,277

Source: UNCTAD, *FDI Statistics Online*

Official development assistance

The Almaty Programme of Action recognized that the cost implications of meeting the requirements of establishing and maintaining efficient transit transport systems are of such a magnitude that landlocked and transit developing countries cannot accomplish such a challenging task on their own. Development partners should play an important role in supporting transit transport development programmes. Official development assistance (ODA) remains the main source of external finance for LLDCs. In 2005, total ODA received by LLDCs from the OECD countries increased to US\$ 14.7 billion from US\$ 13.8 billion in 2004, although in 2005, only about 3.7 percent of the total ODA, down from 6.3 percent in 2003, was allocated to transport, storage and communications infrastructure development.

While ODA has been rising, it falls short of what LLDCs need to implement their development plans. Of the total aid directed to the developing world in 2003, LLDCs accounted for just 14 percent whereas transit developing countries received 26 percent of total ODA, despite their superior economic performance and geographical advantages.

Table 4: Official Development Assistance Received, by LLDC (2004)

<i>LLDCs</i>	<i>Net ODA receipts (US\$ millions)</i>			<i>ODA/GNI (%)</i>			<i>Total Donor Assistance for Transport, storage and Communications (US\$ millions)</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Afghanistan	1,590.7	2,188.3	2,775.3	..	34.7	38.5	59.9	326.1	48.0
Armenia	248.8	253.8	193.3	8.5	8.5	3.9	4.4	0.3	0.1
Azerbaijan	300.6	176.0	223.4	4.4	4.5	2.0	0.2	0.3	0.5
Bhutan	76.6	77.9	90.0	13.2	12.8	11.0	8.5	8.3	13.3
Bolivia	929.3	769.7	582.9	12.0	11.9	6.5	2.4	7.9	6.0
Botswana	27.8	46.9	70.9	0.4	0.4	0.8	0.5	0.3	0.4
Burkina Faso	507.5	614.3	659.6	10.8	12.1	12.8	39.0	18.2	23.3
Burundi	227.4	361.5	365.0	33.8	39.1	46.8	0.1	0.2	3.0
Central	51.2	109.9	95.3	4.2	4.2	7.0	2.9	5.2	4.4

<i>LLDCs</i>	<i>Net ODA receipts (US\$ millions)</i>			<i>ODA/GNI (%)</i>			<i>Total Donor Assistance for Transport, storage and Communications (US\$ millions)</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
African Rep.									
Chad	246.6	321.3	379.8	10.2	10.6	8.6	28.1	33.9	25.1
Ethiopia	1,594.0	1,819.1	1,937.3	22.9	23.5	17.4	60.4	46.1	71.2
Kazakhstan	270.0	267.7	229.2	1.0	0.9	0.5	131.1	117.4	63.6
Kyrgyzstan	199.8	261.1	268.5	11.8	10.8	11.4	5.1	8.6	6.6
Lao PDR	300.9	271.5	295.7	16.1	14.9	11.2	36.0	20.9	15.3
Lesotho	79.3	106.0	68.8	5.9	5.1	3.8	13.3	5.2	2.2
Macedonia, FYR	266.1	250.4	230.3	..	5.8	4.0	0.2	1.3	2.8
Malawi	517.4	501.4	575.3	29.5	31.2	28.4	27.9	17.9	13.0
Mali	543.0	567.6	691.5	12.7	13.0	14.1	40.5	48.7	49.3
Moldova, Rep. of	117.9	119.5	191.8	20.8	19.7	5.9	0.2	0.1	0.0
Mongolia	249.1	262.5	211.9	8.0	8.0	11.6	23.3	11.9	2.7
Nepal	463.0	427.5	427.9	16.7	16.8	5.8	35.9	28.3	18.5
Niger	456.7	541.2	515.4	0.9	0.8	15.2	16.1	18.3	12.2
Paraguay	50.7	21.7	51.1	0.9	0.8	0.6	11.2	17.6	19.3
Rwanda	334.9	488.2	576.0	20.0	20.2	27.4	7.6	18.2	25.5
Swaziland	34.2	21.9	46.0	1.4	1.5	1.7	6.2	0.5	21.6
Tajikistan	147.8	243.2	241.4	11.9	10.1	10.8	0.1	0.6	0.3
Turkmenistan	27.2	37.2	28.3	0.5	0.5	..	6.3	2.1	0.0
Uganda	976.1	1,197.6	1,198.0	15.8	15.8	1.3	6.4	43.4	12.8
Uzbekistan	194.6	245.6	172.3	2.0	1.9	14.0	40.8	32.9	31.9
Zambia	589.4	1,125.2	945.0	13.6	..	14.2	47.1	33.2	49.4
Zimbabwe	186.3	186.6	367.7	..	..	11.6	0.6	0.7	0.5
Landlocked developing countries	11,805	13,882	14,705	10.7	11.7	11.6	662	874	543
Transit developing countries	21,532	21,908	27,398	..	..	..	2,054	2,632	2,096.0
Developing countries	70 361	78 953	106 372	..	..	..	..	..	..

Sources: OECD, *Statistical Annex to 2006 Development Cooperation Report (net ODA receipts, ODA/GNI)*; International Development Statistics Online (*Total Donor Assistance for Transport, storage and Communication*).

In addition, the allocation of development assistance to transport and communications varies considerably from one LLDC to another. Kazakhstan, Uzbekistan, Swaziland, Bolivia, Paraguay and Bhutan allocate relatively larger shares of ODA to infrastructure development than other LLDCs. However, more substantial resources need to be invested in infrastructure development if LLDCs are to overcome their landlockedness and enhance their long-term growth prospects.

Central government debt

International financial institutions classify one in every three landlocked developing states as a heavily indebted poor country (HIPC) due to unsustainable levels of external debt. Excessive external debt is a serious constraint on the ability of poor countries to pursue economic development and reduce poverty.

LLDCs have accumulated unsustainable external debts over the last two decades, as measured by the debt-to-export ratio. This ratio was 191 percent in 2004, down from 222 percent in 2003, while the debt-to-GDP ratio was 59 percent in 2004. The HIPC initiative of the World Bank and the International Monetary Fund (IMF) to cancel the debts of qualifying developing countries includes thirteen LLDCs. As of July 2006, the eight LLDCs (Bolivia, Burkina Faso, Ethiopia, Mali, the Niger, Rwanda, Uganda and Zambia) had reached the completion point, three (Burundi, Chad, Malawi) were at the decision point, and two (the Central African Republic and the Lao People's Democratic Republic) were at the pre-decision point. Five LLDCs (Burkina Faso, Ethiopia, Mali, Rwanda and Uganda) had received debt relief under the Multilateral Debt Relief Initiative as of July 2006. These countries, however, continue to remain vulnerable to export shocks and are dependent on concessional financing and require prudent debt management.

Long-term debt sustainability for the LLDCs will only be achieved if the fundamental causes that produced the debt build-up have been addressed. The causes include weak macroeconomic management, inconsistent implementation of policy reforms and poor governance, as well as external factors such as worsening terms of trade and protectionist policies that restrict access to export markets. In addition, LLDCs typically have a narrow production and export base, and they are heavily dependent on a few primary commodities, which make them vulnerable to price shocks. Past borrowing at high market interest rates has exacerbated the debt burden of many of these countries even further. Therefore, international assistance for export diversification, institutional capacity-building and market access are essential to prevent these countries from falling back into the external debt trap.

Table 5: Debt Sustainability and Debt Relief Under HIPC

LLDCs	Total external debt to exports of merchandise (%)		Total external debt to GDP (%)		Debt relief committed under HIPC Initiative, cumulative US\$ million in 2005 (US\$ millions)
	2003	2004	2003	2004	
Afghanistan	..	..	
Armenia	167	174	40	34	
Azerbaijan	67	64	24	24	
Bhutan	316	339	71	76	
Bolivia	361	286	72	72	2060
Botswana	21	19	7	6	
Burkina Faso	533	442	46	44	930
Burundi	3495	2948	222	205	1472
Central African Rep.	741	714	91	82	
Chad	411	110	66	42	260
Ethiopia	1426	1109	108	82	3275
Kazakhstan	176	161	74	79	
Kyrgyzstan	348	292	106	97	
Lao PDR	514	452	93	85	
Lesotho	147	128	66	56	
Macedonia, FYR	137	123	40	39	
Malawi	675	756	163	164	1000
Mali	335	295	74	67	895

LLDCs	Total external debt to exports of merchandise (%)		Total external debt to GDP (%)		Debt relief committed under HIPC Initiative, cumulative US\$ million in 2005 (US\$ millions)
	2003	2004	2003	2004	2005
Moldova, Rep. of	236	189	96	72	
Mongolia	239	197	124	119	
Nepal	483	444	55	52	
Niger	615	526	88	73	1190
Paraguay	258	207	53	49	
Rwanda	2655	1689	91	91	1400
Swaziland	42	41	24	20	
Tajikistan	143	98	73	47	
Turkmenistan	..	..	..	..
Uganda	810	755	71	62	1950
Uzbekistan	171	138	50	42	
Zambia	664	617	161	137	3900
Zimbabwe	183	171	90	106	
Landlocked developing countries	222	191	62	59	18332
Transit developing countries	126	103	32	29	..
Developing countries	107	92	35	33	..

Sources: UNCTAD, *Handbook of Statistics Online* (exports of merchandise and GDP); World Bank, *World Development Indicators Online* (total external debt), United Nations, *Millennium Development Goals Online Database* (Debt relief committed under HIPC initiative, cumulative)

Social performance of LLDCs

Low economic growth has also led to acute resource constraints for the LLDCs, inhibiting their capacity to alleviate social problems. The LLDCs score poorly on many human development indicators. According to the 2006 *Human Development Index* (HDI) of the United Nations, ten of the world's 20 lowest-ranking countries are landlocked, with Burkina Faso, Mali and the Niger among the bottom five.

LLDCs showed little progress in human development between 1975 and 2001. While the LLDCs have made some progress in improving their social indicators during the past two decades, the divergence in human development between the LLDCs and the coastal developing world appears to be widening. Successful human development is critical, as it can promote economic growth, which in turn advances human development and creates a virtuous cycle. Conversely, poor human development contributes to economic decline, thus leading to further deterioration in human development.

Table 6: Human Development Index, by LLDC (2006)

<i>Medium human development (ranking)</i>	<i>Low human development(ranking)</i>
TFYR Macedonia (66) Kazakhstan (79) Armenia (80) Paraguay (91) Azerbaijan (99) Turkmenistan (105) Kyrgyzstan (110) Uzbekistan (113) Bolivia (115) Mongolia (119) Tajikistan (122) Botswana (131) Lao People's Dem. Rep. (133) Bhutan (135) Nepal (138) Uganda (145)	Swaziland (146) Lesotho (149) Zimbabwe (151) Rwanda (158) Zambia (165) Malawi (166) Burundi (169) Ethiopia (170) Chad (171) Central African Republic (172) Burkina Faso (173) Mali (175) Niger (177)

Source: UNDP, Human Development Report 2006. The rankings include 177 developed and developing countries.

Poverty reduction

Between 1990 and 2004, more than one in three people (40 percent) in LLDCs were poor and subsisted on less than US\$ 1 a day. These numbers are higher than those of coastal LDCs (31 percent) for which data is available.

The Central Asian landlocked states exhibited significantly lower poverty levels (8 percent) compared to their landlocked peers in the rest of the world (47 percent), thanks largely to their socialist history. However, the painful economic transition that these countries have undergone in recent years have caused severe economic distress and contributed to a sharp fall in their social expenditure.

Table 7: Incidence of Extreme Poverty, by LLDC

<i>LLDCs</i>	<i>Population living below \$1 a day, 1990-2001 (%) *</i>	<i>Population without sustainable access to an improved water source (%) 2004</i>
Afghanistan	..	..
Armenia	..	8
Azerbaijan	..	23
Bhutan	..	38
Bolivia	23.2	15
Botswana	23.5	5
Burkina Faso	27.2	39
Burundi	54.6	21
Central African Rep.	66.6	25
Chad	..	58
Ethiopia	23.0	78
Kazakhstan	..	14
Kyrgyzstan	..	23

<i>LLDCs</i>	<i>Population living below \$1 a day, 1990-2001 (%) *</i>	<i>Population without sustainable access to an improved water source (%) 2004</i>
Lao PDR	27.0	49
Lesotho	36.4	21
Macedonia, FYR	..	..
Malawi	41.7	27
Mali	72.3	50
Moldova, Rep. of	..	8
Mongolia	27.0	38
Nepal	24.1	10
Niger	60.6	54
Paraguay	16.4	14
Rwanda	70.8	26
Swaziland	..	38
Tajikistan	..	41
Turkmenistan	..	28
Uganda	..	40
Uzbekistan	..	18
Zambia	75.8	42
Zimbabwe	56.1	19
Landlocked developing countries	40.3	26.4

Source: UNDP, Human Development Report 2006. * Figures for Afghanistan, Armenia, Azerbaijan, Bhutan, Chad, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, TFYR Macedonia, Tajikistan Turkmenistan, Uganda and Uzbekistan are not available.

Health care provision

An illustration of LLDCs' acute lack of resources is per capita health expenditure which in LLDCs (excluding Central Asian landlocked states, Moldova and Macedonia) averaged US\$109 in 2003, up from US\$91 in 2000, but less than half the amount registered by their transit neighbours (US\$ 212). The amount spent on health care by the landlocked sub-Saharan African (SSA) countries was even lower, only US\$ 73 per person.

The life expectancy of the LLDCs (excluding Central Asian landlocked states, Moldova and Macedonia) rose slightly from an average of 46.1 years in the 1970s to 46.9 years in 2002, to 49.1 in 2004. In contrast, people in transit developing countries had a life expectancy of 61.3 years in 2004.

The minimal progress that LLDCs have achieved in health care provision suggests that their populations will continue to experience difficulties in accessing adequate health services in the future. On the other hand, countries with better health conditions have been shown to be systematically more successful in achieving higher economic growth.

Educational attainment

In terms of education, the LLDCs (excluding the Central Asian landlocked states) have made some progress, though not to the extent accomplished in the coastal developing world. Primary school enrolment, a critical measure of the economic conditions of the

impoverished, was 66 percent in 2004. LDCs (excluding landlocked LDCs) saw primary school enrolment increase by 41 percent over the same period. However, enrolment should not be equated with completion. For instance, in Sub-Saharan Africa, only one in three children enrolled in primary school actually finishes school.

For LLDCs (excluding the Central Asian landlocked states), adult literacy rates rose from an average of 53 percent to 56 percent between 1990 and 2004. Despite this progress, however, the adult literacy rate in LLDCs is still low, especially when compared to their transit neighbours. At the same time, two thirds of the illiterate adults are women. Therefore, the current educational and literacy levels attained by LLDCs are unsatisfactory and there is considerable room for improvement.

III. The burden of landlockedness

The economic and social performance of the LLDCs compared to that of coastal developing countries suggests that there is a strong link between geography and development. Lack of direct access to the sea, isolation from major economic centres, inadequate transport infrastructure and cumbersome transit procedures hamper the ability of landlocked developing economies to grow successfully.

High transport costs discourage trade in goods and services

LLDCs incur higher transport costs in foreign trade because of remoteness from seaports and international markets. The cost of international transport services is a crucial determinant of a developing country's trade competitiveness. Higher trade costs reduce a country's welfare and inhibit economic growth by making imports expensive and exports uncompetitive. Therefore, LLDCs suffer a grave disadvantage when competing in global markets against coastal states. It has been estimated that doubling transport costs reduces a country's trade volume by around 80 percent.⁹

In many instances, prohibitive transport costs have a greater effect on restraining the participation of LLDCs in international trade than tariffs or other trade barriers. Most LLDCs already benefit from various preferential trade arrangements providing greater market access for the goods originating from developing countries. Tariffs imposed by the developed countries (e.g., Canada, the European Union, Japan and the United States of America) currently range from 3 to 7 percent. Yet, LLDCs pay on average almost three times more for transport services than the tariffs imposed on their exports by these developed countries.¹⁰

For example, 168 out of 216 United States trading partners face higher transport costs than tariff barriers. Sub-Saharan African exports to the United States enjoy a preferential tariff of less than 2 percent of the value of a good, but this is more than offset by transport costs that are usually in excess of 10 percent.¹¹

Excessive transport costs also impede trade in services, especially in tourism. Holidaymakers are highly sensitive to variations in travel costs, and it has been estimated that a doubling in

9 Henderson, J. Vernon, Zmarak Shalizi and Anthony J. Venables, "Geography and Development", 1 September 2000, p. 10.

10 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.

11 World Bank, *Global Economic Prospects and the Developing Countries 2002*, p. 99.

travel costs can reduce tourism demand as much as eight-fold. Since more than 90 percent of tourists visit developing countries by air, efficient air transport services are critical for the success of tourism exports. For instance, air transport in Eastern and Southern Africa is 10 times more costly than for the U.S. state of Florida. Such high costs greatly limit the scope of mass-market tourism in these regions.¹²

Measuring LLDCs' transport costs

CIF/FOB margins

The most commonly used measure for transport costs is the CIF/FOB margin in international trade. This margin measures the ratio of import costs according to the following categories:¹³

Free on board (FOB)	Cost-insurance-freight (CIF)
Measures the cost of an imported item at the point of shipment by the exporter, specifically as it is loaded on to a carrier for transport.	Measures the cost of the imported item at the point of entry into the importing country, including the costs of transport (i.e., insurance, handling and shipping costs) but does not include customs charges.

Gallup, Sachs and Mellinger have found that there is a penalty both for distance from the core economies and for being landlocked. Each additional 1,000 km raises the CIF/FOB margin by 1 percent, and being landlocked raises the CIF/FOB margin by an additional 11 percent.¹⁴ Further research by Limão and Venables has shown that the median landlocked country experienced transport costs 42 percent higher than the average coastal economy (US\$ 8,070 versus US\$ 4,620).¹⁵

A World Bank study has shown that the transport costs for LLDCs were higher than those faced by transit developing countries. The study was based on 1999 data collected by the Bank concerning the shipment of a 40-foot container to 35 different landlocked country destinations and 29 transit country destinations from Baltimore, Maryland, in the United States. The same study concluded that doubling the ad valorem freight rate led to a five- to six-fold decline in aggregate import values.¹⁶

An important factor contributing to high CIF/FOB margins for LLDCs is the greater economic and political risks they face, given their complete dependence on transit neighbours for trade flows. The uncertainty of inland road conditions and customs clearance procedures means higher insurance premiums in addition to basic transport costs. An UNCTAD study has shown that transportation and insurance payments comprised 12.9 percent of the FOB export value of LLDCs, on average. The corresponding figure for coastal developing countries was only 8.1 percent, while for developed countries it was 5.8 percent.

¹² Ibid., p. 100.

¹³ Radelet, Steven, and Jeffrey Sachs, "Shipping Costs, Manufactured Exports, and Economic Growth", January 1998, p. 3.

¹⁴ Gallup, John Luke, Jeffrey Sachs and Andrew D. Mellinger, "Geography and Economic Development", Harvard Center for International Development Working Paper No. 1, March 1999, p. 18.

¹⁵ Limão and Venables, pp. 5-6.

¹⁶ World Bank, *Global Economic Prospects ... 2002*, p. 100.

On the basis of the foregoing, Gallup, Sachs and Mellinger have argued that CIF/FOB margins are a reliable predictor of economic growth. There is an inverse relationship between the two variables: the higher the CIF/FOB margin, the slower the economic growth. The SSA region has the greatest number of LLDCs and thus the highest CIF/FOB margin. Moreover, the transport hurdle faced by LLDCs could in fact be even more damaging to trade than the statistics reveal. The actual cost of transport is high because freight rate calculations based on CIF/FOB comparisons, which only include the international leg of the journey, understate the true door-to-door transport cost. Port and inland transportation costs between a LLDC and its neighbouring transit developing country can be as much as two thirds of the total door-to-door costs.¹⁷

Ratio of freight-to-import costs

A second way to show the higher transport costs experienced by LLDCs is by comparing their average freight-to-import ratio with that of transit developing countries. From the IMF trade statistics pertaining to 26 LLDCs and 26 transit developing countries, it is apparent that the former have a much higher ratio of freight-to-import costs. On average, freight costs were 15 percent of their total import costs, corresponding to 10 percent of freight costs for transit developing countries.

Table 8: Transportation and Insurance Costs as a Percentage of Export Earnings (1997)

<i>Country group</i>	<i>Percentage of export value</i>
LLDCs	12.9
Coastal developing countries	8.1
Developed countries	5.8

Source: UNCTAD, "Challenges and Opportunities for Further Improving the Transit Systems and Economic Development of Landlocked and Transit Developing Countries", May 2003.

The result is apparent at the regional level. For example, the gap between LLDCs and transit developing countries is particularly noticeable in West Africa (15 percent). In contrast, the efficacy of multilateral trade negotiations and transit cooperation is demonstrated in Southern Africa. The formation of the Southern African Development Community (SADC) and the implementation of its transit-facilitating Protocol on Transport, Communications and Meteorology reduced the freight-to-import costs gap to just 2.4 percent between the LLDCs in the Southern African region and South Africa, the major transit country.

IV. Why are LLDC transport costs so high?

Remoteness and isolation from major markets

In many cases, the merchandise trade of LLDCs must travel great physical distances before it can reach international trade routes. This challenge is especially acute for the transitional Central Asian economies. The capital cities of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan are all more than 4,000 km from the nearest port. Furthermore, Uzbekistan is doubly landlocked. Therefore, freight has to transit at least two countries before reaching a seaport. Bhutan and Nepal appear to have two transit neighbours, but in fact the only practical transit corridors are through India. The impassable mountainous terrain of the

¹⁷ Ibid., p. 100.

Himalayas precludes a China route from consideration.

Table 9: Distance of Selected LLDCs from the Sea

<i>LLDC</i>	<i>Distance from the sea (km)</i>
Kazakhstan	4 800
Kyrgyzstan	4 570
Tajikistan	4 450
Uzbekistan	4 300
Turkmenistan	3 800
Azerbaijan	3 090
Armenia	2 865
Rwanda	1 530
Burundi	1 455
Uganda	1 150
Botswana	1 100
Zambia	950
Malawi	815
Lesotho	740

Landlocked countries that can potentially benefit from much shorter distances to the sea are not necessarily better off. Due to a variety of political or military difficulties involving transit neighbours, the shortest route to the sea might not be the one actually used, with the actual distance traversed being much longer and costlier. For example, the distance is over 10,000 km for Central Asian countries preferring to utilize the trans-Siberian railroad to reach the Russian Far East port of Vladivostok. Another example is the routes from eastern Bolivia to Atlantic ports that exceed 2,000 km, much farther than the Chilean ports that are only 200 km away from La Paz.

Such long distances, especially for Central Asia, mean that LLDCs are naturally located very far from major world markets, with a predictable effect on their transport costs. The problem of distance is compounded by the structure of LLDC exports, which are predominantly low-value bulky commodities. Thus, remoteness from seaports and low value exports increase freight and related transit costs of LLDCs and reduce their competitiveness.

The LLDCs' lack of integration with external markets hinders economic growth by limiting the size of domestic firms, which discourages specialization in production and the efficient utilization of labour. This problem of market access is exacerbated by the fact that the principal markets for LLDCs are mainly outside their immediate regions. For the landlocked developing states, neighbouring countries do not constitute their major export markets or

sources of imports for reasons of regional underdevelopment and export structures based on primary commodities. According to the IMF Balance of Payments Statistics in 2001, half of the total exports of LLDCs went to developed country markets, with their close neighbours receiving less than 30 percent of total LLDC exports.

Landlockedness and the associated high transport costs thus clearly show the challenges faced by LLDCs in trying to gain access to important, but distant rich-country markets. This situation can easily be contrasted with the experience of European landlocked states, which find themselves located within an industrially developed region. Rich neighbours that constitute immediate markets surround Austria and Switzerland. Landlockedness is not a trade barrier for Hungary, Slovakia and the Czech Republic, since they are linked to Western Europe by good roads over very short distances.

Lack of direct access to the sea

Although the transportation problems associated with remoteness and isolation are similar to those faced by some interior areas of coastal developing countries, the circumstances confronting LLDCs are much more challenging in that they are totally dependent on neighbouring countries for access to international shipping routes. In most cases, the merchandise trade of LLDCs needs to cross at least one transit country to reach its final destination. As a result, transport costs of the LLDCs are substantially higher than those of transit countries and coastal states in general. Higher transport costs then translate into higher costs of traded goods for the LLDCs.

The uncertainty of trade flows and costliness of LLDCs' reliance on their transit neighbours are manifested in several ways:

- i. Even if an LLDC possesses world-class infrastructure, it will encounter sizeable barriers to trade and limits on its economic growth if the transit country has not invested sufficiently in its physical infrastructure.
- ii. LLDCs can find themselves subject to border blockages or other impediments to trade should they find themselves in conflict with their transit neighbours.
- iii. When transit neighbours suffer from strikes, natural disasters, civil war or economic upheavals, the transit routes used by LLDCs may become damaged, unsafe or even closed.
- iv. Passing through the territory of transit neighbours invariably results in significant administrative burdens on LLDC traders.

Administrative barriers often impose the greatest burden on LLDCs. Cumbersome administrative requirements on the part of transit countries often contribute to making international trade more onerous and expensive. Transit countries, many of which are also developing countries, generally have little incentive or scarce resources to build transit transport systems to an international standard. Understaffing, opaque customs procedures, poorly defined administrative rules, burdensome documentation requirements, endemic corruption and a host of accompanying obstacles increase the logistical costs of international shipping for LLDCs.

In most transit developing countries, there is seldom any utilization of electronic documentation technologies to increase the efficiency of transport-related transactions. Lack of information technology contributes to the costs and delays suffered by both local and LLDC traders. Congestion and long queues at border crossings are especially common. For example, there are as many as 1,500 Nepali and Bhutanese trucks queued up at key Indian border crossings each day. The waiting time for these trucks can stretch from one to five days.¹⁸ Similarly, it takes an Uzbek truck 120 hours on average to cross over to Turkmenistan, at a relatively high cost of US\$ 650.¹⁹ In Southern Africa, it has been estimated that delays at border crossings cost the region US\$ 48 million annually.²⁰

Additionally, transit operations create new cost components that do not arise in international shipping for coastal countries. Some of these cost components, such as custom guarantees at the port of entry (refunded when transit goods leave a transit country), reflect costs borne by transit countries for allowing LLDC goods to travel across their territories, including the risk of transit goods illegally entering their own markets. To make matters worse, the reimbursement process is often long and costly. Also, customs guarantee amounts are often excessive and do not reflect the true cost of transit goods. Other cost components, such as port fees, reflect the near-monopoly control on seaport access enjoyed by transit countries. This control gives transit developing countries monopoly power to exploit the dependence of LLDCs on transit services by charging high fees and other charges.²¹

Cross-border infrastructure development (investments in roads, custom houses, etc.) between the landlocked country and the transit country is often difficult to coordinate and even more difficult to implement. Furthermore, a particularly contentious issue is working out the appropriate division of investment costs between landlocked and transit developing countries.

Infrastructure deficiencies within LLDCs

The poor trade performance of LLDCs can be explained by poor infrastructure within their borders. While many coastal developing countries also face considerable infrastructure shortfalls, they do not have adverse geographical conditions and low population densities characteristic of LLDCs. These characteristics tend to increase the costs of providing physical infrastructure and delivering social services in a country. As a result, the task of building and maintaining efficient transportation and communications networks in LLDCs, not to mention the additional infrastructure needed to reach the sea, is a much more expensive undertaking for LLDCs compared to other countries. The relevant infrastructure, given the same population, will cover a larger surface area compared with a neighbouring transit country.

Given the scarce economic resources of LLDCs, their stock of growth-generating modern infrastructure is quite inadequate. By any measure of infrastructure access, the people living in LLDCs are more worse off than their counterparts in coastal developing countries. For instance, coastal developing countries have more than three times the stock of paved roads that LLDCs have. The poor condition of the existing infrastructure, further increases the transport costs faced by LLDCs. Elbadawi, Mengistae and Zeufack have found that domestic

18 World Bank, *Global Economic Prospects ... 2002*, p. 110.

19 E/ESCAP/1282/Rev.2, 9 May 2003.

20 TD/B/LDC.1/19, May 2003.

21 World Bank, *Global Economic Prospects ... 2002*, p. 110.

transport costs are at least as strong a constraint on a country's trade as are international costs.²²

The development of transport infrastructure varies from region to region. Road transportation remains the dominant mode of transport in Africa, accounting for 90 percent of interurban transport. Less than one third of Africa's 2 million kilometres (km) of roads are asphalted, amounting to 6.84 km per 100 km² compared to 12 km per 100 km² in Latin America and 18 per 100 km² in Asia. The African rail network is an estimated 89,380 km long, with a density of 2.96 km per 1,000 km². The interconnections of the rail network are poor, especially in Central and Western Africa, and the availability of rolling stock is low compared to other regions, such as Asia. In Asia, the total network of railroads is estimated at 355,000 km. The total length of the Asian highway network is 140,000 km, although the quality of the network varies considerably among countries.

The total road networks of LLDCs constituted 1,040,000 km in 2004, up from about 974,000 km in 2003. In general, the quality of road networks in LLDCs is poor. For example, only 0.8 percent of the roads in Chad are paved, while in Mongolia it is 3.5 percent, in Bolivia 6 percent and in Mali 18 percent. The combined rail networks of all LLDCs amount to roughly 40,000 km. On the other hand, the air cargo of LLDCs has reached 351.3 million tons per km. In terms of telecommunication infrastructure, on average in 2003 there were 5.1 main phone lines per 100 inhabitants for LLDCs. Afghanistan, Chad, the Central African Republic, Niger and Uganda had only 0.2 main telephone lines per 100 inhabitants.

LLDCs are trailing badly in information technology (IT), the one area that could better connect them to the rest of the world. There is a digital divide between the developed and developing worlds today, but the discrepancy between landlocked developing states and their transit developing neighbours appears to be just as acute. LLDCs also lag behind in their use of mobile phones, with an average of 6.8 mobile phone subscribers per 100 inhabitants in 2003. Whereas LLDCs had 15.1 personal computers per 1000 inhabitants in 2003, the world average was 100.8 personal computers per 1000 inhabitants. The digital divide between LLDCs and transit developing countries will only widen in the years ahead in the absence of significant IT investments by LLDCs.

Non-physical barriers

The Almaty Programme of Action noted that important sources of additional and avoidable costs and inefficiency can include border-crossings and customs procedures, documentation requirements, inadequate infrastructure facilities and costly bank transactions. Regulatory and procedural constraints are often as critical as infrastructure deficiencies because LLDC imports and exports have to cross multiple borders. According to the World Bank, the cost of customs procedures and transport represents the single greatest cost in external trade and is higher than the import tariffs imposed by developed countries on LLDC goods. Red tape is estimated to represent nearly 10 percent of the value of exports in developing countries, and inefficient customs and transport operations force businesses to hold larger inventories, further increasing production costs by 4 to 6 percent.

22 Elbadawi, Ibrahim, Taye Mengistae and Albert Zeufack, "Geography, Supplier Access, Foreign Market Potential ...", World Bank, December 2001.

In addition, it is estimated that each additional day in transport delays costs 0.5 percent of the cargo value for goods transported by ship or rail. To fulfil the large number of procedural requirements, imports and exports globally required 31.9 and 39.9 days, respectively. These figures rise to 57.3 days for imports and 72.3 days for the exports of LLDCs. In contrast to transit developing countries, LLDCs take an additional 22.9 days for goods to be imported and 28.6 additional days for goods to be exported. Ports and inland transport accounted for only a quarter of the delays while pre-arrival documents, customs and inspections accounted for 75 percent of total delays, of which 59 percent of delays accounted for pre-arrival documents and 16 percent accounted for customs and inspection. In Africa and South Asia, nearly 70 percent of imported cargo containers were opened and inspected during customs clearance, further delaying the import process. Every container was opened in Burkina Faso, Malawi, Mali, and Nepal.

Various factors contribute to the delay of goods in transit. For example, in its 2004 Economic Report for Africa, the UN Economic Commission for Africa argued that a multitude of international agreements and protocols intended to simplify and harmonize trade and transport between states have been adopted in Africa. "These bilateral agreements tend to undermine regional and subregional agreements. For instance, it has been estimated that in the West African Economic and Monetary Union (UEMOA), only 30 percent of the rules governing road transport are subregional, the remaining 70 percent being either bilateral or national. There are also more than 100 agreements between UEMOA member states in the area of transport. The proliferation of rules covering the same area leads to uncertainty and a multiplicity of forms and procedures." Roadblocks also constitute a serious hurdle for African trade, causing both delays and increased costs. *The Economist* reported that in Cameroon, a transit developing country, there were 47 roadblocks between Douala and Bertoua, a distance of about 500 km.²³ Numerous checkpoints are maintained by nearly all ECOWAS member states, where drivers are at times subjected to administrative harassment and extortion.²⁴

Multimodal transportation

When freight must be shipped both by land and by sea, additional costs are incurred from shifting between different modes of transport. Since multimodal transport requires multiple changes of transport modes en route to the final destination, it necessitates frequent and costly reloading of goods, shipping delays and the need to contract several transport operators instead of a single door-to-door service provider.²⁵ Another contributing factor is the sporadic use of containers for inland transport, for example, because of long turnaround times, risks of loss or damage to containers, and unsuitable road infrastructure. Both in and out of port, containerization is believed to be an important source of improved shipping efficiency and cost savings.

Limão and Venables found that transport overland is seven times more expensive than sea transport. An extra 1,000 km by sea adds US\$ 190 to shipping costs whereas a similar increase in land distance adds a substantial US\$ 1,380.²⁶ For the same distance, therefore, countries with a higher proportion of transit by land will incur significantly higher overall transport costs.

²³ *The Economist*, "The road to hell is unpaved", 21 December 2002, pp. 65-67.

²⁴ UNECA, 2004 Economic Report on Africa, p. 166.

²⁵ World Bank, *Global Economic Prospects ... 2002*, p. 109.

²⁶ Limão, Nuno, and Anthony J. Venables, "Infrastructure, Geographical Disadvantage, and Transport Costs", World Bank Policy Research Working Paper 2257, December 1999, pp. 5-6.

This observation has been confirmed by the World Bank's Baltimore study mentioned earlier. The Bank decomposed transport costs into sea and overland components by subtracting shipping costs to the transit port from the overall transport costs to the LLDCs. Although overland transit costs varied widely from 90 percent in Burundi to 15 percent in Armenia of total costs, such costs constituted at least half the total transport costs for 14 out of the 15 LLDCs observed. This figure stood in sharp contrast to the actual distance of inland travel, which was less than 5 percent of the total distance travelled in all 15 cases.

A similar study conducted by Radelet and Sachs corroborated this result. The data included the costs of shipping by sea for 97 developing countries, plus the additional road or rail costs for landlocked countries. They found that LLDCs paid between 25 percent (Malawi shipping by rail through the United Republic of Tanzania) and 228 percent (Burundi shipping by road through the United Republic of Tanzania) more than their coastal neighbours for an identical export shipment, even though overland distances comprised a very small proportion of the total transport distance.²⁷

The same characteristic of multimodal transportation is obvious in Latin America as well. Mexico's CIF/FOB margin is low relative to other countries in the region. In fact, its average transport cost margin of 4.5 percent is only slightly more than that for the United States. This is a reflection of Mexico's proximity to the United States market. In sharp contrast, landlocked Paraguay faces an average CIF/FOB margin that is nearly triple that of Mexico. Paraguay's CIF/FOB margin is significantly higher than that of Argentina, Brazil or Chile even though the distance to the United States market (that is, New York City) is shorter.

V. High transport costs and export-led growth

A country's geography is a critical determinant of its transport costs and the degree of access to domestic and foreign markets, all of which impact the country's development prospects. Given the same factor endowments, countries with higher transport costs will often achieve lower real incomes because more resources need to be employed for transportation, thereby realizing fewer gains from trade. According to research by Redding and Venables, this market access as an indicator explained around 70 percent of the variations in per capita GDP in 1996, and showed how access to the coast raised per capita income by 64 percent.²⁸

Whither the East Asian model?

In developing countries, particularly the poorest ones where inexpensive labour is plentiful, export-led manufacturing growth can contribute to the reduction of poverty. Export growth can boost income growth of the poor through the stimulation of national economic growth. In addition, exports are crucial for earning the foreign exchange needed to purchase the capital imports necessary for growth. There is, therefore, an intimate link between successful export performance and economic development.

Statistics have shown that the countries that have been most successful in promoting labour-intensive manufacturing exports are those that have recorded the fastest rates of economic growth during the past 30 years. The newly industrialized countries (NICs) of East Asia

²⁷ Radelet and Sachs, p. 4.

²⁸ Redding, Stephen, and Anthony J. Venables, "Economic Geography and International Inequality", *Journal of International Economics*, April 2003.

exemplify the success of the export-led growth strategy. By opening their doors to a flood of export-centred FDI, the NICs profited from the swift growth in world exports between the early 1970s and the late 1990s. These economies also benefited from the tendency for FDI inflows to contribute more to investment and to GDP growth than an equal amount of foreign borrowing.²⁹ The apparent success of the so-called East Asian economic model has made this approach the development strategy of choice for developing countries that want to eradicate poverty.

The geographical constraints faced by LLDCs — lack of direct access to the sea and remoteness from major markets — continue to have an unfavourable impact on their international transport costs, and hence on their potential to become viable export-oriented manufacturers. If such costs cannot be reduced, indiscriminate adoption of the East Asian approach is unlikely to bear much fruit for LLDCs, even if they reduced tariff rates, removed quantitative restrictions and followed prudent macroeconomic policies.

Coastal countries with lower transport costs generally have enjoyed greater export growth than landlocked ones with higher transport costs. Economic data for LLDCs show a negative correlation between transit costs and exports. As transit costs appreciate, the share of exports in a country's GDP will correspondingly decline.

Further, Radelet and Sachs have also found that increasing a country's CIF/FOB ratio from 12 percent to 17 percent reduces the long-term growth of the share of non-primary manufactured exports in GDP by around 0.2 percent per annum. The two authors also concluded that the countries that have succeeded in labour-intensive export manufacturing tended to have populations living within 100 km of the coast.

Populations in Sub-Saharan Africa tend to be concentrated in the interior. Only one fifth of the African population lives within 100 km of the coast. Indeed, Africa has the highest proportion of landlocked people of any continent in the world. This stems from the fact that a large fraction of the population lives far away from the coast even in countries with coastlines, such as the Sudan (in which 2 percent of the total population is coastal), Kenya (6 percent) and the United Republic of Tanzania (16 percent).³⁰ Furthermore, Africa's interior regions are not accessible by seagoing vessels because of impassable river barriers.

Thus, a general pattern emerges that shows that the developing countries with the fastest export growth are not landlocked. As a consequence, the amount contributed by LLDCs to the developing world's share of total global exports was below one percent in 2003-2005 (see Table 10). In contrast, the share accounted for by transit developing countries rose from 12.66 percent to 15.12 percent during the same period. This export trend underscores the continuing marginalisation of LLDCs that has been taking place in the world economy.

29 Agrawal, Pradeep, "Economic Impact of Foreign Direct Investment in South Asia", Bombay, January 2000.

30 Gallup, Sachs and Mellinger, "Geography and Economic Development", CID Working Paper No. 1, March 1999, p. 19.

Table 10: Value and Share of Exports by LLDCs

<i>LLDCs</i>	<i>Value (US\$ millions)</i>			<i>Share of world exports (%)</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Afghanistan	144	314	340	0.00	0.00	0.00
Armenia	686	715	950	0.01	0.01	0.01
Azerbaijan	2590	3615	4347	0.03	0.04	0.04
Bhutan	154	183	304	0.00	0.00	0.00
Bolivia	1598	2146	2671	0.02	0.02	0.03
Botswana	3024	3467	4395	0.04	0.04	0.04
Burkina Faso	321	479	347	0.00	0.01	0.00
Burundi	38	48	57	0.00	0.00	0.00
Central African Rep.	121	125	128	0.00	0.00	0.00
Chad	601	2191	3032	0.01	0.02	0.03
Ethiopia	496	678	883	0.01	0.01	0.01
Kazakhstan	12927	20093	27849	0.17	0.22	0.27
Kyrgyzstan	582	719	672	0.01	0.01	0.01
Lao PDR	378	361	506	0.01	0.01	0.00
Lesotho	470	697	650	0.01	0.01	0.01
Macedonia, FYR	1367	1676	2041	0.02	0.02	0.02
Malawi	525	483	497	0.01	0.01	0.01
Mali	928	977	1135	0.01	0.01	0.01
Moldova, Rep. of	789	980	1091	0.01	0.01	0.01
Mongolia	616	870	1065	0.01	0.01	0.01
Nepal	662	756	830	0.01	0.01	0.01
Niger	352	437	577	0.01	0.01	0.01
Paraguay	1242	1627	1697	0.02	0.02	0.02
Rwanda	58	98	125	0.00	0.00	0.00
Swaziland	1574	1949	1744	0.02	0.02	0.02
Tajikistan	797	915	909	0.01	0.01	0.01
Turkmenistan	3632	3870	4939	0.05	0.04	0.05
Uganda	562	709	863	0.01	0.01	0.01
Uzbekistan	3189	4280	4837	0.04	0.05	0.05
Zambia	981	1461	1852	0.01	0.02	0.02
Zimbabwe	1670	1926	1877	0.02	0.02	0.02
Landlocked developing countries	43072	58847	73210	0.57	0.64	0.70
Transit developing countries	952853	1251677	1578733	12.66	13.65	15.12
Developing countries	2410557	3090696	3750526	32.03	33.72	35.92

Source: UNCTAD, Handbook of Statistics 2007

The competitiveness of domestic firms

High transport and inventory costs are the two main factors that undermine the competitiveness of LLDC domestic firms. First, high transport costs make the importation of intermediate goods less profitable. Second, inventory costs increase if high transport costs are a function of weak infrastructure.

Expensive intermediate goods

Given the low profit margins and high import content of most LLDC domestic firms engaged in labour-intensive export manufacturing, high transport costs have the effect of eliminating the majority of LLDCs from international competition. In contrast, most of the main manufactured exports of coastal developing countries involve the low-cost importation and assembly of intermediate manufactured goods (e.g., fabrics, electronic components) and the subsequent re-export of final goods to world markets. The more costly transport is, the more expensive intermediate good imports will be, and the less income firms will receive for their exports. For this sort of activity to be viable, therefore, it is critical to minimize the transport costs associated with the import of intermediate products and their re-export after domestic processing. Therefore, access to reliable and cheap transportation of goods to and from world markets is crucial to the establishment of a flourishing assembly sector.³¹

For example, in the electronics industry, variations in transport costs can reduce potential value-added significantly. Typically, every US\$ 1 of electronic exports contains up to 85 cents of imported inputs, meaning that the value added by the developing country could be as low as 15 percent of the final output. In such a case, a 10 percent increase in transport costs would constitute two thirds of the domestic value added, thereby resulting in a decline of the country's export competitiveness.³²

For investors, transport costs weigh heavily on the choice of production location for high-import-content, assembly-type industries such as electronics. For a typical LLDC with a CIF/FOB margin of, say, 18 percent, any value added in electronics would be negated by transport costs. Hence, a profitable electronics sector is seldom found in landlocked developing economies characterised by high transport costs. Export-oriented foreign investors see few, if any, prospects for profit in such LLDCs.

Domestic firms and foreign investors in some LLDCs with comparatively lower CIF/FOB margins, such as Zimbabwe and Uganda, are still able to compete in world markets. But in order to make their exports competitive, these firms need to pay substantially lower wages and accept smaller returns on capital to compensate for higher transport costs.³³ As a result, high transport costs tend to reduce the real incomes of both firms and workers in these countries even if an export industry is viable. A more likely outcome, however, is that the industrial base of most LLDCs will remain at the level of cottage industries because they are not able to achieve the necessary cost efficiencies for modern production.³⁴

High transport costs also affect investment goods. In the vast majority of developing countries, all capital equipment is imported from abroad, especially from the developed world. However, high transport costs inflate the prices of imported capital goods. Empirical studies have shown that economic growth is a decreasing function of the relative cost of investment goods, i.e., the more costly the imported capital good, the lower the growth rate.³⁵

31 Ibid.

32 Sachs, "Geography and Economic Transition", p. 6.

33 Radelet and Sachs, p. 6.

34 Sachs, "Geography and Economic Transition", p. 7.

35 Gallup, Sachs and Mellinger, p. 11.

Therefore, high transport costs inhibit real investment and impose a limit on the rate of technology transfer through capital imports.³⁶

Therefore, reducing transport costs is essential if landlocked developing economies are to minimize their input costs. In this context, Elbadawi, Mengistae and Zeufack have found that a country's exports rise significantly with improvements in supplier access to inputs from domestic or foreign markets.³⁷

Excessive inventory costs

Poor infrastructure also contributes to the negative impact on inventory levels in LLDCs. In light of the high real interest rates that generally prevail in developing countries, one would expect to observe lower inventory levels because of the relatively higher holding costs. However, Guasch and Kogan have reported the opposite phenomenon in developing countries. A possible explanation for high inventory levels in low-income countries is that infrastructure deficiencies make supply more variable, and this raises the safety stock levels of inventory that firms hold to cushion themselves against unexpected supply shortages. Thus, there is a negative relationship between a country's infrastructure and inventory levels, the effects of which are more pronounced for LLDCs.³⁸

High inventory levels entail significant hidden costs to an economy. American businesses typically hold inventory levels equal to about 15 percent of GDP, while the inventory levels in a landlocked developing state such as Bolivia are more than four times as large for raw materials and three times as large for final goods. Given the high costs of capital in developing countries, the impact on unit costs of production is significant. If the private sector interest rate for financing inventory holdings were conservatively estimated at 15 percent, Guasch and Kogan have estimated that the cost to the economy of additional inventory holdings would be greater than 2 percent of GDP.³⁹ This amount represents an unnecessary waste of resources that could otherwise be put to better use, such as augmenting the infrastructure stock of a LLDC.

At the firm level, such high levels of inventory have an adverse effect on business operations. With capital being so expensive in the developing world, Guasch and Kogan believe that halving inventory levels could potentially reduce unit production costs by over 20 percent.⁴⁰ Realizing these savings would no doubt reduce the costs of doing business in LLDCs, thereby boosting their competitiveness, aggregate demand and employment. But making such savings possible will require a sustained commitment by LLDCs to improve their infrastructure and enhance their cooperation with transit partners. Only with the establishment of efficient and suitably regulated road, port and telecommunications systems at the transnational level can LLDCs start reducing inventory levels.

In short, LLDCs with high transport costs are unattractive to export-oriented FDI and their domestic firms will be much less competitive in international markets. FDI and trade, as noted earlier, are the chief means through which a developing country can gain access to

36 Radelet and Sachs, p. 10.

37 Elbadawi, Mengistae and Zeufack.

38 Bond, "Trade Structure and Development: The Role of Logistics Costs in Latin American Countries", p. 18.

39 Guasch and Kogan.

40 Ibid.

much-needed technology and capital.⁴¹ LLDCs, if they do not act decisively to enhance transport access, will find themselves excluded from the benefits of the global economy.

VI. A narrow productive base, low savings and few trading partners

Besides hampering export growth, a harsh geography and high transport costs have other negative effects on LLDCs.

First, it is difficult for LLDCs, predominantly primary product exporters, to diversify their economies into value-added manufacturing due to low domestic savings, low levels of FDI and low export revenue. As exporters of a few primary commodities, they face deteriorating terms of trade and a declining demand for their products because of the emergence of cheaper man-made substitutes for their products.⁴² Second, a country's choice of trading partners is largely decided by transport costs. High transport costs and low-value exports make it difficult for LLDCs to find reliable trading partners and new markets. Third, because of high transport costs, LLDCs have a low manufacturing capacity. Therefore, there is little incentive to invest in skills with long-term adverse consequences such as low levels of educational attainment, fewer skilled workers, low incomes and demographic pressures due to high population growth and unemployment.⁴³ Fourth, most LLDCs are not able to absorb technology because they are penalised for being remote from major markets or main sea routes.⁴⁴ Fifth, LLDCs tend to be more closed to the outside world than their coastal neighbours. Governments in coastal economies have to contend with mobile factors of production (human, physical and financial capital), while landlocked economies are characterized by largely immobile factors (land and peasants). Hence, it is easier for LLDCs to tax their populations in a highly regulated economy, while coastal governments are forced to compete for mobile factors by fostering a liberal economic and legal environment for inward investment.

VII. Making things better

Compared to coastal countries, the penalty of distance and high transport costs will continue to hold down the growth rates and incomes of landlocked developing states with inadequate international transport links.⁴⁵ This principle is supported by cross-country evidence:

- i. On average, LLDCs experience 1 percent slower growth than coastal economies.⁴⁶

⁴¹ World Bank, *Global Economic Prospects ... 2002*, p. 101.

⁴² For instance, copper is being displaced by fibre optics, natural rubber by jute and cotton is being rendered obsolete by high-tech synthetic materials.

⁴³ Redding, Stephen, and Peter K. Schott, "Distance, Skill Deepening and Development", *Journal of Development Economics* 72(2), 2003, p. 3.

⁴⁴ Successful importers of technology tend to be close to big markets and/or are located on principal sea routes. Technology is drawn across borders to countries such as NAFTA-enriched Mexico; to Poland and Hungary, previously neighbours, now members of the European Union; to coastal China, Hong Kong, China, and Singapore in Eastern Asia; and to the coastal cities of southern India. Technology does not flow as easily to remote mountainous regions (e.g., the Himalayan and Andean countries), landlocked developing countries (e.g., Central Asia) or inland regions that are far from seaports (western China or northern India). See also Sachs, Jeffrey, "A New Map of the World", *The Economist*, 22 June 2000.

⁴⁵ Redding and Venables, "Economic Geography and International Inequality", *Journal of International Economics*, April 2003, p. 25.

⁴⁶ Gallup, Sachs and Mellinger, p. 23.

- ii. Being entirely landlocked subtracts roughly 0.7 percent from a developing country's annual growth.⁴⁷
- iii. A landlocked country with transport costs 50 percent higher than a similar coastal economy can expect slower growth of about 0.3 percent per annum.⁴⁸

If LLDCs are to lift themselves out of poverty and address underdevelopment, high transport costs must first be overcome. These costs can be alleviated by constructive cooperation with transit developing countries and generous financial and technical assistance from the rich countries. In addition, there is a greater need for enhanced regional cooperation, improved infrastructure and better trade facilitation if LLDCs are to succeed in overcoming their disadvantages.

Regional cooperation and infrastructure

The merchandise trade of LLDCs must pass through the territory of at least one neighbouring country to reach the sea. Thus, close regional cooperation in transit transport and trade promotion between LLDCs and transit countries is of utmost importance. There are mutual benefits for both groups, including unfettered and cost-effective access to the sea for LLDCs and the benefits of efficient transit transport services and revenues generated by the provision of such services for the transit countries. Regional cooperation could also be the basis of cooperative infrastructure agreements between landlocked and transit developing countries. The agreements would ensure that transit routes and other infrastructure, with assistance from donors and investors, are developed, connecting and serving LLDCs and their transit neighbours.⁴⁹ During the construction phase, short-term jobs would be created, while periodic maintenance would lead to long-term job creation.⁵⁰ In more and more regions, coordinated transport projects are proving their worth in promoting international trade. The South Asia Regional Initiative and the Southern Africa Transport Protocol are among the most successful examples.

Research by Limão and Venables indicates that improving the infrastructure of LLDCs and transit countries can increase the volume of trade considerably. Such improvements and cost reductions would raise the volume of trade by 8 percent with improvements in the infrastructure of a LLDC; by 2 percent with improvements in the infrastructure of a transit

47 Sachs, Jeffrey, *Emerging Asia*, Asian Development Bank and Harvard Institute for International Development, 1997.

48 Radelet and Sachs, p. 11.

49 In the absence of cooperative agreements between countries, there will likely be under investment in those forms of infrastructure in which the investments could have spill over effects on other countries (e.g., transit infrastructure). A transit developing country, for example, would tend to invest less in railway and highway infrastructure to improve connections with neighbouring landlocked countries compared to airport and harbour infrastructure that carry goods to the rest of the world.

50 A recent World Bank study analysed the costs and benefits of comprehensive, coordinated road network upgrading in Sub-Saharan Africa. Results indicate that the annual implementation cost over 15 years is \$5.9 billion for the first five years, decreasing to \$1.8 billion thereafter. This is well within the range of aid programs currently proposed for Sub-Saharan Africa. About \$12 billion of such expenditures would directly generate jobs and income for about 8.4 million rural construction workers in the upgrade period and 365,000 annual jobs for maintenance. Beyond the job creation effect, the great upside of such a project is that the coordinated network upgrading would result in an expansion of overland trade in Sub-Saharan Africa by about \$250 billion over the next 15 years.

country; and by 11 percent if the improvements take place concurrently in both groups of countries.⁵¹

Trade facilitation

Aside from better infrastructure, the trade transaction costs faced by LLDCs can be significantly reduced through appropriate trade facilitation measures and multilateral trade negotiations. These measures include simplifying requirements, harmonizing procedures and documentation, standardizing commercial practices and introducing agreed codes for the representation of information. In many countries, documentation requirements often lack transparency and are duplicative, a problem often compounded by a lack of cooperation between traders and official agencies. Despite advances in information technology, electronic data submission is not widely used. Reducing bureaucratic interference and simplifying procedures can be achieved, but only if the countries involved display a greater commitment to international, regional, subregional and bilateral agreements.

Studies have shown that red tape leads to adverse trade results. Excessive documentation associated with exports results in lower trade-to-GDP ratios, while more signatures for permits and licenses in trade lead to greater corruption. Indeed, several landlocked and transit developing countries have implemented reforms to streamline transit transport.

Multilateral negotiations on trade facilitation are an integral part of the Doha Development Agenda. The trade negotiations attempt to clarify and improve relevant aspects of Article V on freedom of transit; Article VIII on fees and formalities connected with importation and exportation; and Article X on publication and administration of trade regulations of GATT with a view to further expediting the movement, release and clearance of goods, including goods in transit. Negotiations also aim at enhancing technical assistance and support for capacity building in this area. In addition, the negotiations also address the issues pertaining to effective cooperation between customs or other relevant authorities on trade facilitation and customs compliance issues.

Active and concerted participation of LLDCs in the WTO negotiations on trade facilitation is very important. The Asunción Platform for the Doha Development Agenda provides a sound basis for the coordinated efforts of LLDCs and transit developing countries.

51 Limão and Venables, p. 17.

Chapter 2. Effective Participation of Landlocked Developing Countries in the Multilateral Trading System⁵²

Introduction

Landlocked developing countries (LLDCs) are widely dispersed around the globe: 15 are located in Africa, 12 in Asia, two in Latin America and two in Central and Eastern Europe. Despite their location on four continents, all 31 LLDCs share common problems of geographical remoteness and high transport costs in international trade transactions. But they also have a common goal, namely the integration of their economies into the global trading system in a way that would enable them to reap more benefits from international trade. For that, they face the common challenge of mobilizing investments on a massive scale to strengthen local productive capacities and to modernize their infrastructure.

LLDCs are among the poorest developing nations. Nearly all LLDCs have a low per capita GDP, reflecting low income levels, limited domestic savings capacity and a generally low level of economic development. Factors such as reduced international competitiveness of LLDCs' merchandise exports due to high transport and related costs, as well as high price volatility on international markets and stagnating global demand for key export products of these countries, help explain the weak economic performance of LLDCs. Moreover, the high transaction costs that these countries incur bear heavily on their export development and limit the range of potential exports and markets in which goods can be traded competitively.

The international community has focused on the specific development constraints of LLDCs for many decades.⁵³ A major international initiative to promote trade integration of LLDCs is the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation which was held in Kazakhstan in August 2003. The Conference adopted the Almaty Declaration and the Almaty Programme of Action (APoA),⁵⁴ recognizing international trade and trade facilitation as a priority area within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries.

This chapter is divided into two parts. The first part provides an overview of the economic situation of LLDCs at the beginning of the new millennium and presents strategies to address the constraints that LLDCs encounter. The second part analyses issues in the ongoing multilateral trade negotiations at the WTO that are of particular relevance to landlocked countries.

⁵² Adapted from UNCTAD, International Ministerial Meeting of Landlocked Developing Countries: Effective Participation of Landlocked Developing Countries in The Multilateral Trading System, Parts One and Two, 2005 (UNCTAD/LDC/2005/3).

⁵³ One of the first UN resolutions addressing this issue was UN General Assembly resolution 1028 (XI), adopted in February 1957. At that time there were only five independent landlocked countries. Other actions include the United Nations Millennium Declaration, A/RES/55/2, of 18 September 2000; the Third United Nations Conference on the Least Developed Countries (Brussels, 2001); the International Conference on Financing for Development (Monterrey, 2002); and the World Summit on Sustainable Development (Johannesburg, 2002).

⁵⁴ United Nations General Assembly resolution 58/20 of 23 December 2003.

I. Landlocked developing countries in the global trading system: a general economic overview

LLDCs, as a group, are among the poorest developing countries. Of the 31 LLDCs, 16 of them belong to the category of least developed countries (LDCs). They face tremendous challenges to growth and development due to a wide range of factors, including weak institutional and productive capacities, small domestic markets, and high vulnerability to external shocks, as well as poor physical infrastructure and remoteness from world markets. In particular, the latter result in high transaction costs in external trade,⁵⁵ which hamper their efforts to overcome poverty and to improve the social and economic situation of their populations.

Nearly all LLDCs have a low per capita GDP, reflecting low income levels, limited domestic savings capacity and a generally low level of economic development. While the average GDP per capita of LLDCs was about US\$ 940 in 2005, more than double the figure in 2003, it varies considerably from region to region, with Asian and African LLDCs (US\$ 855 per capita and US\$ 859 per capita respectively) being the poorest. The GDP per capita of LLDCs in South-Eastern Europe and the Commonwealth of Independent States (CIS) and in Latin America is still higher, amounting to US\$ 1699 and US\$ 877 respectively.

Only one LLDC, namely Botswana, has a per capita GDP exceeding the average level of the per capita GDP of all developing countries, which is US\$ 4,131. Almost two thirds of the LLDCs have a relatively small size in terms of population, which adversely affects economies of scale with regard to local supply capacities and local markets. Moreover, most LLDCs rank low in the UNDP Human Development Index, a fact that points to a wide range of social development constraints, such as high poverty levels, poor education and health systems, low life expectancy and low purchasing power.⁵⁶

In the last 15 years, the group of LLDCs have had a mixed record in terms of economic growth and development. While the annual average GDP growth rate was less than one percent up to 2003, during the period 1990 to 2005 the LLDCs registered an annual growth rate of 5.3 percent. This performance is significantly higher than the annual average growth rates of 2.8 percent for the world as a whole and 4.7 percent for all developing countries.⁵⁷

Moreover, due to an increase in commodity prices and improved economic growth, the LLDCs have fared better than expected against the backdrop of continued rapid population growth during the period 1990–2005. The average annual increase in per capita income of 1.8 percent has reversed some of the negative trends that were observed in earlier times, such as worsened poverty levels and reduced overall demand in the LLDCs. Indeed, the situation has improved somewhat, mainly because of the economic recovery in oil-exporting central Asian LLDCs and some African LLDCs.

⁵⁵ Ad valorem trade costs, covering freight and insurance costs for exports, are higher in LLDCs (12.9 percent) than in other developing countries (8.1 percent) and developed countries (5.8 percent), owing to high transit costs and risks associated with exports from LLDCs. See UNCTAD, *Challenges and Opportunities for Further Improving the Transit Systems and Economic Development of Landlocked and Transit Developing Countries*, UNCTAD/LDC/2003/8, Geneva 2003.

⁵⁶ UNCTAD Handbook of Statistics, 2006-2007.

⁵⁷ Ibid.

Most LLDCs, particularly in Africa, still depend heavily on the production and trade of primary commodities, mainly agricultural products. However, agriculture growth patterns are highly volatile in the LLDCs. The vagaries of the climate are often aggravated by the negative effects of low investments in irrigation schemes, agricultural machinery and fertilizers, as well as in harvesting and storage facilities. External factors, such as high price volatility in international markets and stagnating global demand for key export products of these countries, as well as their reduced international competitiveness due to higher transaction costs, have added to the weak economic performance of LLDCs.

External trade

Lack of territorial access to the sea, remoteness and isolation from world markets result in substantially higher transportation costs for LLDCs and reduce their competitiveness in international trade. Moreover, these high transaction costs bear heavily on their export development and limit the range of potential exports and markets in which goods can be competitively traded. The price of imports also tends to soar because of high transit transport costs.

In 1990, the shares of LLDCs in the world merchandise and services trade were 0.37 percent and 0.43 percent respectively. With the emergence of new LLDCs in Central and Eastern Europe and Central Asia in the early 1990s, this share has significantly increased. However, since 1993, the participation of LLDCs in international trade has remained unchanged, amounting to a share of 0.57 percent for merchandise trade and 0.64 percent for services trade in 2002, with total values of US\$ 73.9 and US\$ 20.8 billion respectively.⁵⁸

In fact, the value of total merchandise trade of all 31 LLDCs in 2002 was almost 25 times less than that of the United States, and slightly lower than that of Turkey. Only Azerbaijan, Botswana, Kazakhstan, Turkmenistan, Uzbekistan and Zimbabwe (prior to its current crisis) had merchandise exports in excess of US\$ 2 billion in 2002, accounting for 63 percent of total LLDC merchandise exports.⁵⁹ The total value of the exports of most other LLDCs is too insignificant to influence price and market developments of their main export products; this makes them price-takers rather than price-makers.

While LLDCs are marginal players in trade at the global level, international trade is of critical importance for their national economies. Their "openness", measured by the level of economic exposure to the rest of the world, is high. For the group as a whole, export and imports of goods and services constituted on average about 81 percent of the countries' GDP during the period 2000–2002, which is much higher than the ratio for middle- and low-income developing countries or high-income OECD countries. In a number of LLDCs, including Lesotho, the Republic of Moldova, Mongolia, Swaziland, Tajikistan and Turkmenistan, the trade-to-GDP ratio is higher than 100 percent.⁶⁰

⁵⁸ UNCTAD Handbook of Statistics, 2004.

⁵⁹ Botswana benefits greatly from exports of precious stones, a typical "low bulk, high value" commodity, for which air transport is utilized, thus circumventing many transport constraints due to landlockedness. Zimbabwe benefits from its proximity to South Africa, while Azerbaijan, Kazakhstan and Turkmenistan are oil exporters and Uzbekistan exports gold and cotton.

⁶⁰ Ibid.

Similarly, merchandise exports per capita in Botswana, Kazakhstan, the former Yugoslav Republic of Macedonia, Swaziland and Turkmenistan are higher than the average for the developing countries, with Botswana and Swaziland exceeding US\$ 1,000 per capita.

The high trade-to-GDP ratios of LLDCs imply that international trade plays a significant role in these countries and that their economies are widely exposed to the global trading system without being in a position to exert any influence on price or market trends.

Moreover, it is also noticeable that exports of goods and services constitute a lower proportion of GDP than imports of goods and services, this fact reflecting the limited export capacity of those countries. During 2000–2002, for example, in Burundi, Chad and Rwanda, imports surpassed exports threefold and more. In all other LLDCs, with the exception of Botswana, Kazakhstan, Tajikistan and Zimbabwe before its current crisis, imports exceed exports significantly. As a result, the LLDCs as a group run a trade deficit, which has an adverse effect on the balance-of-payments situation of these countries.

(a) Trade in goods

The emergence of newly independent LLDCs in the former Soviet Union, especially resource-rich countries such as Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan, has altered the structure of merchandise exports of the group of LLDCs since the early 1990s. The share of fuel exports from LLDCs increased more than fourfold, while the share of exports of agricultural raw materials fell almost threefold during the period 1993–2002. Exports of food items and ores and metals have also decreased since 1993, while exports of manufactured goods have slightly increased since then. Currently, more than 50 percent of aggregate exports from all LLDCs are primary commodities or low-processed raw materials. Manufactures account for about 30 percent, while food exports consist of 14 percent of total exports of the LLDCs.⁶¹

The external trade of most landlocked developing shows a high concentration in a few products, mainly primary commodities. Oil is the single most important category of LLDCs' merchandise exports. Three major oil-exporting LLDCs (Azerbaijan, Kazakhstan and Turkmenistan) accounted for about 42 percent of total LLDC exports in 2002. Important non-fuel export minerals include aluminium (Armenia), copper ore (Botswana, Mongolia, Zambia), gold (Armenia, Mali, Mongolia, Uzbekistan, Zimbabwe), nickel (Botswana), precious stones (Botswana) and zinc (Zambia). Most of these mineral commodities suffered from declining world prices during the 1990s, and LLDCs were therefore compelled to increase their export volume, so as not to further widen their trade deficit at constant import values.

A few LLDCs have a significant share of manufactured goods in their exports. The share of manufactured exports is highest in Armenia, Botswana, Lesotho, Nepal and Swaziland among the LLDCs.⁶² Apart from manufactured exports from Armenia and the former Yugoslav Republic of Macedonia, these are mainly low-tech goods, including textiles, leather products and handicrafts, which are subject to strong international competition. Changes in consumer taste or demand and increased competition in textiles and clothing industries offer new

⁶¹ Ibid.

⁶² In Armenia it is 63.8 percent, in Lesotho 87.4 percent, in the former Yugoslav Republic of Macedonia 71.7 percent, in Nepal 66.7 percent and in Swaziland 76.4 percent, respectively.

challenges and opportunities for several LLDCs with regard to export diversification and value-added processing.

The product structure of imports of the LLDCs has remained largely unchanged since 1993. Manufactured goods continue to dominate LLDCs' imports, accounting for about two thirds of total imports. Food items were the second largest import (13 percent). Energy products accounted for 12 percent of total imports, owing to the heavy import dependence on petroleum imports by LLDCs such as Kyrgyzstan, Mali, the Republic of Moldova and Mongolia. The product composition of imports mirrors the narrow manufacturing base and, in general, the serious supply-side constraints that characterize the economies of LLDCs.

(b) Trade in services

Exports of services that are not affected by distance or other trade barriers, such as tourism, ICT services or services using ICT, offer an opportunity to overcome trade constraints due to remoteness and the dependence on transit routes and transit traffic. So far, however, LLDCs play only a very marginal role in international service transactions. Other than tourism, which is of economic importance in a few LLDCs (Bhutan, Botswana, Nepal, Uganda), the scope of exportable services is still very limited in LLDCs and the total value is low. In 2002, exports of services of the LLDCs as a group stood at US\$ 7.7 billion. Most LLDCs were net service importers. Total imports of services amounted to US\$ 13 billion in the same year.⁶³

Among the different types of export services, tourism is the most important services sector, followed by exports of transport services and government services. The increase in exports of communication services has been most dynamic. However both its share and its value are still small. Exports of other services such as financial and insurance, construction and IT services are insignificant.

On the imports side, the LLDCs mainly import transportation and travel services, while other services imports such as construction and recreational services are marginal.

Direction of trade

The external trade of most LLDCs is relatively inadequately diversified both in terms of products, as seen above, and in terms of trading partners. LLDCs conduct their international trade transactions in goods with only a small number of countries. On average, five trading partner countries account for at least 60 percent of exports of most LLDCs.⁶⁴ Neighbouring (transit) countries often account for a large share of LLDCs' export and imports, as exemplified in the cases of Paraguay (59 percent of all exports and 57 percent of all imports are from neighbouring countries) and Mongolia (53 percent of all exports and 55 percent of imports are from neighbouring countries).

The South–South trade of LLDCs has significantly increased since 1993, accounting for 35 percent of total exports and 42 percent of total imports of LLDCs. In particular, developing countries in Asia and Latin America have emerged as dynamic trading partners of LLDCs.

⁶³ It should be noted that the current level of international statistics on trade in service does not make it possible to fully analyse exports and imports patterns in this sector. Hence we limit ourselves, to the extent possible, to the analysis of only general trends and avoid conclusions on this subject.

⁶⁴ IMF Direction of Trade Statistics (DOTS), 2004.

As for imports, Asian developing countries, as well as CIS countries and countries in Central and Eastern Europe, have become important sources of imports for some LLDCs.

Although developed countries continue to be the major trading partners of LLDCs, their shares in exports and imports dropped from 46 percent to 39 percent and from 45 percent to 33 percent, respectively, over the period 1993–2003. The European Union is still the leading trading partner of LLDCs, although its share has declined considerably over the last decade. Japan's share in LLDCs' exports has been halved, while its share in LLDCs' imports declined by almost three quarters.

Foreign direct investment

LLDCs need significant investments for the development and strengthening of productive capacities and infrastructure, which cannot be effected locally owing to their limited domestic savings capacity. Foreign direct investment (FDI) therefore plays a critical role in the development of those countries.

However, LLDCs perform poorly as hosts to FDI. The combined inward flow of FDI to all LLDCs amounted to US\$ 6.4 billion or roughly four fifths of the FDI flows to Singapore in 2002.⁶⁵ In addition to the small volume of FDI flowing to LLDCs, a breakdown of FDI by sector in a number of LLDCs indicates that FDI to these countries flows mainly to activities in the primary and secondary sectors, often responding to market access incentives provided by developed countries, such as the AGOA scheme. The services sector, whose products are largely insensitive to distance (e.g. services provided by call centres, data processing and accounting centres), has in general a low share in FDI flows to LLDCs.

LLDCs appear to have many barriers to FDI that range from remoteness and the lack of direct access to seaports to their narrow resource base and their small domestic markets. The impact of both transport costs and transport time on exportable goods, and diseconomies of scale on both the supply and demand sides, make them less attractive to FDI, particularly to investments that are dependent on export and import transactions and are efficiency- or resource-seeking or domestic-market-oriented.⁶⁶

The establishment of an efficient transport infrastructure in LLDCs and, equally important, in transit countries is undoubtedly important for the better connection of these countries to world markets. However, its high economic costs, as well as its limited success in the past in helping these countries achieve the scale, competitiveness and access to technology and markets that are needed to produce goods more efficiently, suggest that this approach needs to be complemented by other policies.

The move towards a higher knowledge and information content in the value added of exportable goods and services opens up new opportunities for LLDCs, which could help mitigate the effects of distance and remoteness as barriers to FDI. Efforts by LLDCs to attract FDI should therefore concentrate on the promotion of sectors that produce goods and services that are knowledge- and information- intensive.

⁶⁵ UNCTAD, Handbook of Statistics 2003.

⁶⁶ UNCTAD, FDI in Landlocked Developing Countries at a Glance. New York/ Geneva 2003.

The development of location-specific advantages that enable LLDCs to benefit more from the emerging global knowledge and services economy has certain prerequisites.⁶⁷ In the first place, it would be necessary to generate both the range of skills that would help attract this type of FDI and local technological capabilities. The low-cost labour of some LLDCs would be a major advantage, in particular with regard to semi-skilled activities that could be outsourced and whose output could be transferred electronically (e.g. call centres, data processing, accounting services). Moreover, LLDCs would need to put in place an appropriate ICT infrastructure, which in itself would be an attractive sector for FDI.

LLDCs will therefore need to participate proactively in the ongoing multilateral negotiations on services with a view to the formulation of agreements that would help them attract FDI to service sectors.

Another way to overcome barriers to FDI, especially those related to the small size of local markets, consists in strengthening regional integration and establishing common market areas that include both landlocked and neighbouring transit developing countries. Such an approach would require a paradigm shift in dealing with the problems of LLDCs, moving the focus away from distance from the sea to distance from markets. From that point of view, a number of LLDCs would appear not to be disadvantaged in terms of geographical location. Rather, they could develop into a hub of regional economic activity that could emulate, over time, the economic success of certain European landlocked countries that were able to compensate for disadvantages due to geographical location over a period of two generations. In such cases, the dynamics of increasing intra-subregional and regional trade can ensure that LLDCs also become transit countries.

Again, LLDCs will have to make sure that the outcome of current WTO trade negotiations reflects their specific situation and needs and allows for the flexibility to create regional arrangements that would help these countries tackle inherent problems that are difficult to address on a single- country basis.

II. Landlocked developing countries in the multilateral trading system: World Trade Organisation negotiations

Lack of access to the sea makes LLDCs dependent on neighbouring countries for their external trade: LLDCs depend on their neighbours' transit infrastructure; on good cross-border political relations; on peace and stability in the neighbouring country(ies); and their neighbours' administrative practices.⁶⁸ It is therefore in the prime interest of LLDCs to promulgate and implement internationally accepted and binding rules for international trade.

Under the auspices of the WTO, the 22 LLDCs that are members of this organization have the right and the opportunity to proactively design and to draft legislation that governs international trade, with account being taken of their special characteristics and constraints.

The programme of trade liberalization adopted at the 2001 WTO Ministerial Conference in Doha contains two elements of paramount importance for LLDCs: trade facilitation, an issue added in 1996 to the WTO agenda, and a work programme to examine issues relating to the

⁶⁷ Ibid., pp. 7ff

⁶⁸ See Faye M L et al.: The challenges facing landlocked developing countries. *Journal of Human Development*, vol. 5, no. 1, March 2004.

trade of small economies. Substantive work on the Work Programme on Small Economies began in April 2002, and negotiations on trade facilitation were launched as part of the July Package on 1 August 2004.

As much as the Doha Development Round may or may not have helped LLDCs mitigate some of the adverse impact of their specific characteristics and constraints on their participation in the global trading system, it is understood that substantial assistance from bilateral and multilateral donors, in particular regarding infrastructure development and the establishment of competitive productive capacities, is needed in order to accelerate the development process in those countries.

Trade facilitation

Since tariffs have been lowered in several rounds of multilateral trade negotiations, costs relating to compliance with customs formalities have become a more critical issue, exceeding in many instances the cost of duties to be paid. In addition, bureaucratic customs and administrative procedures often represent more serious barriers to the participation of SMEs in international trade than tariff barriers. Trade facilitation is therefore an issue of relevance to both developing and developed countries.

However, the simplification and the harmonization of international trade procedures, including activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade, are of even greater importance to LLDCs than to other countries, because of their need to pass much of their merchandise trade through at least one transit country.

Articles V, VIII and X of GATT 1994 address issues that could help facilitate the expeditious movement of goods in transit, reduce the level of requisite fees and the scope of formalities connected with importation and exportation, as well as ensure the timely publication and impartial administration of relevant laws and regulations. Other agreements such as those on import licensing, technical barriers to trade, sanitary and phytosanitary measures, customs valuation, rules of origin and preshipment inspection also contain a number of relevant provisions.

Trade facilitation, as a separate topic, was added as an issue to the WTO agenda at the First WTO Ministerial Conference, held in Singapore in 1996. It was reiterated in paragraph 27 of the Doha Declaration. With the adoption of the 2004 July Package, the General Council decided to begin negotiations aimed at clarifying and improving relevant aspects of Articles V, VIII and X of GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit. The negotiations should also aim at enhancing technical assistance and support for capacity building in this area and provide the basis for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues.⁶⁹

On the basis of Annex D of the July Package, the work programme on trade facilitation addresses the following:

- Clarification and improvement of relevant aspects of Articles V, VIII and X of GATT 1994; enhancement of technical assistance and support for capacity building; effective

⁶⁹ WTO document WT/L/579, paragraphs 1 (f) and Annex D, 2 August 2004.

cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues;

- Special and differential treatment for developing and least developed countries;
- Least developed country members;
- Identification of trade facilitation needs and priorities; concerns related to the cost implications of proposed measures;
- Technical assistance and support for capacity building;
- Working with, and the work of, relevant international organizations.

Work on Articles V, VIII and X of GATT 1994

Several proposals have been made regarding Articles V, VIII and X of GATT 1994 since the launching of negotiations on trade facilitation.

Proposals for Article V refer to (i) the clarification of terms used in that article; (ii) improved transparency of transit requirements, procedures and charges; (iii) the harmonization of transit policies; (iv) the simplification and standardization of documentation, data requirements and procedures applied to goods and means of transport in transit; (v) non-discrimination between means of transport, carriers and types of consignment in relation to transit procedures; (vi) issues related to guarantees required from transit operators; (vii) freedom of transit on the most convenient routes; (viii) the use of ICT and the implementation of efficient customs control systems; and (ix) issues related to coordination and cooperation among WTO member countries.

However, the explicit recognition of the transit problems of LLDCs in a strengthened Article V could be an important catalyst for making this article operational and for generating targeted technical assistance from bilateral and multilateral institutions for trade-related infrastructure development and capacity-building

Proposals for Article VIII focus on (i) the clarification of its coverage, non-discrimination in the application measures and the avoidance of unnecessary procedural barriers; (ii) the number and level of fees and charges; (iii) the simplification, reduction and standardization of documentation and data requirements; (iv) the establishment of a “single window” facility; (v) the simplification and standardization of clearance procedures, particularly for authorized traders, risk assessment, consignment inspection and related practices; (vi) the use of customs automation systems; and (vii) issues related to the use of securities and greater cooperation among border agencies in general.

Proposals for Article X deal with (i) the publication, in particular by electronic means, of related laws and regulations; (ii) the establishment of national inquiry points to provide relevant information and respond to inquiries; (iii) the consultation process on promulgation of new laws and regulations; and (iv) review and appeal procedures.

With the adoption of the July Package and the ensuing launching of negotiations on trade facilitation, LLDCs have the opportunity to pursue this issue in a coherent and more focused manner in cooperation with other interested WTO member countries to close existing gaps in

the WTO legal framework, particularly on customs procedures and documentation, and transparency. Numerous international agreements and conventions⁷⁰ that have been concluded since the 1921 Barcelona Transit Convention on Freedom of Transit may provide elements of both text and language that have already found wide acceptance for the multilateral negotiation process. Recognized principles such as clarity, consistency and predictability of trade practices, the simplification, standardization and harmonization of trade procedures, as well as the limitation of related fees and charges to the approximate cost of the service rendered, should be the underlying approach in WTO negotiations on trade facilitation.

The Work Programme on Small Economies

The setting

Although several LLDC member states of the WTO derive benefits from belonging to the category of LDCs, LLDCs as such do not enjoy the privileges of a special category sui generis of WTO members. The fact that LLDCs have not obtained a special status in the WTO is due to several factors, including the complexities of the multilateral negotiation process, reluctance regarding a proliferation of new categories of member states with special privileges, problems of definitions and expected problems of eventual graduation, as well as diverging interests among WTO members on this issue.

However, there is also a growing recognition among WTO members that being landlocked is an inherent disadvantage that has a negative impact on the trade and international competitiveness of the countries concerned, reduces their ability to diversify production and exports on a sustainable basis, and is one of the main causes of the marginalization of LLDCs in the international trading system, as explained in the first part of this paper. Attempts are therefore made to address the geographical handicap of LLDCs in the broader context of disadvantages that smaller developing WTO members in particular face in international trade, with a view to finding internationally accepted policy measures to mitigate their negative effects.

The first effort to address the issues of disadvantaged developing WTO members was made at the Geneva Ministerial Conference in 1998.⁷¹ At the 1999 Ministerial Conference in Seattle, the group of small island developing states (SIDS) raised issues of concern to small states in a separate paragraph of the text of the main declaration.⁷² During the preparations for the Doha Ministerial Conference, the group of SIDS submitted a proposal for the creation of a special programme within the WTO framework to address specific problems of small and vulnerable developing countries.⁷³ This proposal led to paragraph 35 of the Ministerial Declaration, in which agreement was reached on the establishment of a Work Programme on

70 For example: Convention on Transit Trade of Land-locked States (New York transit convention), 1965; International Convention on the Harmonized Commodity Description and Coding System, 1983; Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention), 1999; Convention on the Harmonization of Frontier Control of Goods, 1982.; Convention on Road Traffic, 1968; Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), 1975. Convention on the Contract for the International Carriage of Goods by Road (CMR), 1956; Customs Convention on Containers, 1972; International Convention to Facilitate the Crossing of Frontiers for Goods Carried by Rail, 1952; Convention on Customs Treatment of Pool Containers used in International Transport, 1994.

⁷¹ Paragraph 6 of the Geneva Ministerial Declaration, WTO document WT/MIN(98)/DEC/1, 25 May 1998.

⁷² See WTO documents JOB(99)/4797/Rev.3, 18 November 1999; WT/GC/W/361, 12 October 1999; and WT/GC/W/373, 15 October 1999; as well as paragraphs 8, 56 and 58 of Annex in WTO document WT/GC/W/441, August 2001.

⁷³ WTO document WT/GC/W/441, 6 August 2001.

Small Economies under the auspices of the General Council to examine issues related to the trade of small and vulnerable economies and to frame responses to the trade-related issues identified for the fuller integration of small and vulnerable economies into the global trading system.

Paragraph 35 of the Doha Declaration reads as follows: "We agree to a work programme, under the auspices of the General Council, to examine issues relating to the trade of small economies. The objective of this work is to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO Members. The General Council shall review the work programme and make recommendations for action to the Fifth Session of the Ministerial Conference."

The Framework and Procedures for the conduct of the Work Programme on Small Economies (WPSE)⁷⁴ were set out on 1 March 2002, and substantive work on the WPSE began with the first Dedicated Session (DS) of the CTD on 25 April 2002.

Since then, a number of initiatives have been undertaken to better address the concerns of LLDCs in the WTO. In their proposal for the Cancún Ministerial Conference, the group of LLDCs suggested that a reference to "landlocked developing countries" be included in the text of the Ministerial Declaration, and outlined their negotiation objectives and common positions.⁷⁵ Although these efforts did not yield immediate results, they were important for raising the profile of issues of relevance to LLDCs in the WTO.

At the 6th Dedicated Session, the representatives of Bolivia, Mongolia and Paraguay, in their respective statements, emphasized the need for progress in the WPSE, despite the failure in Cancún. Paraguay proposed discussion of the recommendations contained in document WT/MIN(03)/W/23 at the next Dedicated Session with a view to addressing particular concerns faced by the LLDCs in the DS and giving this issue "special consideration".⁷⁶

Other documents, such as WT/COMTD/SE/W/3 (submitted by the group of SIDS), WT/COMTD/SE/W/10 (submitted by Paraguay, Bolivia and Mongolia) and WT/COMTD/SE/W/11 (submitted by the group of SIDS), contained substantive proposals in line with the objective of paragraph 35 of the Doha Declaration. These proposals covered a wide range of trade issues of market access and preferences for small economies, subsidies, SPS, anti-dumping and countervailing measures, the flexibility necessary for small economies to be able to participate effectively in and secure benefits from the MTNs, and other measures to mitigate the adverse effects of inherent disadvantages, vulnerabilities and structural constraints of small economies, including LLDCs.

In parallel, procedural proposals made by the chair of the DS were aimed at moving forward the WPSE. A three-step approach proposed on 25 January 2005 suggested (a) consideration of the use of characteristics to identify what could be accepted as small, vulnerable economies – without naming any group of countries; (b) consideration of those trade-related problems that could reasonably be attributed to those characteristics – without naming any group of countries; and (c) framing of responses to those trade-related problems – without

⁷⁴ WTO document WT/L/447, 5 March 2002.

⁷⁵ WTO document WT/MIN(03)/W/23, 14 September 2003.

⁷⁶ WTO document WT/COMTD/SE/M/6, 14 November 2003.

naming any group of countries.⁷⁷ This idea was further refined by a proposal to examine the characteristics and problems of small and vulnerable economies by taking a three-pronged approach which segments them into (i) areas where WTO solutions can be found; (ii) areas where WTO solutions may be available, but need to be combined with assistance from other agencies; and (iii) areas where a solution lies elsewhere (outside the WTO).⁷⁸

The July 2004 Framework Agreement reconfirmed that "the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system should also be addressed, without creating a sub-category of Members, as part of a work programme, as mandated in paragraph 35 of the Doha Ministerial Declaration".⁷⁹

Assessment

In spite of the above efforts, there has been no tangible outcome of the WPSE so far nor have concrete steps been taken in response to the specific needs of LLDCs.

The slow progress in the work on the WPSE can be attributed to a number of factors, including:

(a) A major constraint has been the lack of a clear, enforceable and acceptable definition of "small and vulnerable economies", despite several attempts to clarify this issue. In May 2002, for example, a group of countries, including Bolivia and Paraguay, submitted a document (WT/COMTD/SE/W/1/Rev.1) that highlighted inter alia key characteristics and constraints faced by small economies. Document WT/COMTD/SE/W/12, issued almost three years later, contained a similar list of characteristics of such economies. The non-agreement regarding which WTO member states are to be covered by the Work Programme is related to the pending definition issue, although there is a common understanding among most of the interested parties that they all share similar constraints due to small size and vulnerability.

(b) Concerned WTO member states differ about the scope and type of characteristics to be used for the purpose of defining "small and vulnerable economies" and related measures to be taken, especially if they do not share this particular characteristic. For example, some member states with relatively large populations are reluctant to stress this issue. Other member states with relatively high per capita incomes, but which face various impediments to trade expansion, object to the inclusion of per capita income levels as a major parameter of smallness and vulnerability, while the LLDCs with their generally low levels of GDP per capita attach to this issue a more prominent role. In addition, some WTO member states have suggested taking non-trade concerns into account in the negotiations, which should be considered in the negotiations and reflected in the WTO rules.⁸⁰

(c) There is a non-agreement on threshold and eventual graduation levels to be applied for quantifiable characteristics of "small and vulnerable economies", which makes the WPSE potentially interesting for WTO member states that *prima facie* might not be considered small and vulnerable.

(d) Different tactics applied by interested WTO member states hamper more rapid progress. While WTO member states that believe themselves to be "small and vulnerable economies"

⁷⁷ Chair's statement at the informal meeting on 25 January 2005.

⁷⁸ Fax from the chairman of the CTD to its members, dated 21 March 2005.

⁷⁹ WTO document WT/L/579, 2 August 2004, paragraph 1d.

⁸⁰ Paragraphs 16 and 122, WTO document G/AG/NG/R/4, 24 January 2001.

would like to begin to frame responses, other potential beneficiaries of the WPSE prefer first an agreement on both the countries covered by the WPSE and the constraints and disadvantages to be addressed.

(e) Discussions on the WPSE have diverged from its main focus by debating issues that are not directly related to it, such as e-commerce, success stories and the need for seminars and workshops.

The way forward

The above assessment leads to several policy proposals that might help LLDCs in the negotiation process regarding the WPSE.

As a road map for negotiations, LLDCs need to prioritise issues of importance to them, define their objectives and goals, and decide on which issues discussions should focus on immediately and which could be taken up later. Furthermore, it seems to be plausible, as suggested, to divide the issues to be discussed into three areas: (i) where solutions could be found within the WTO; (ii) where WTO solutions may be available, but need to be combined with assistance from other agencies, and (iii) where solutions lie outside the WTO.

The group of LLDCs should cooperate with other WTO member countries that share similar constraints in expanding international trade through a win-win strategy, which emphasizes their interests and objectives without harming the interests of other WTO members.

The discussion of characteristics and constraints should lead to results that have a positive impact on the development process in LLDCs, thus living up to the expectations associated with the current Doha Development Round. In this context, attempts to ignore the different levels of development of WTO member states in the outcome of the negotiations by pursuing a "one size fits all" strategy should be opposed.

The group of LLDCs should not allow discussions to deviate from key issues and should resist the introduction of issues that could and should be addressed in other WTO bodies.

More efficient and better coordination between the group of LLDCs and other WTO member states and grouping of countries that share similar constraints could be crucial for success in the negotiations. To this end, all LLDC member states in the WTO should constitute themselves into a Consultative Group, which could then coordinate and cooperate with other country groupings that are also interested in the WPSE. Such a mechanism would also allow the LLDCs to express their positions in other WTO bodies and negotiating groups in a coherent manner.

The Indicative List of Specific Characteristics and Problems

A group of 16 WTO member states, including LLDCs, communicated on 18 February 2005 an Indicative List of Specific Characteristics and Problems as a basis for consideration under the WPSE with a view to identifying trade-related solutions for fuller participation by small and vulnerable economies in the multilateral trading system (see Boxes 1 and 2).⁸¹

At a glance, some of these characteristics and problems seem not to be specific to LLDCs or small economies in general, or not trade-related. However, what makes them specific and

⁸¹ WT/COMTD/SE/W/12, 21 February 2005.

unique in this context is (a) the *cumulative nature* of these characteristics and problems in LLDCs, which reinforce each other and affect negatively their trading capacity; and (b) *the very limited capacity of these countries to address them adequately in their efforts aimed at enhancing the international competitiveness of their exportables*.

In addition to all of the above issues, there is a pressing need for action and special WTO legislation specific to LLDCs on special and differential treatment, non-agricultural market access (NAMA), tariffs, trade preferences and the WTO accession process. These issues are grouped and analysed below so as to facilitate the efforts of those countries to design appropriate systemic responses to these problems.

Box 1: Indicative List of Specific Characteristics and Problems

These specific characteristics and problems are the following: (i) physical isolation, geographical dispersal and distance from the main markets, many countries being small island or landlocked developing countries; (ii) insignificant participation in the multilateral trading system and a minimal share of total world trade; (iii) small, fragmented and highly imperfect markets; (iv) in general, very open economies; (v) domestic markets with imperfect and highly polarized structures: either a multitude of small and micro enterprises, or cartels/monopolies; (vi) minimal or no export diversification: concentration of exports on very few products (especially commodities, traditional products and low-value-added goods); (vii) insubstantial supply of export services; (viii) dependence on very few export markets; (ix) inadequate infrastructure; (x) high degree of vulnerability; (xi) low competitiveness; (xii) low levels of productivity and insufficient supply; (xiii) economic rigidity with high adjustment costs; (xiv) inability to sustain diversified productions; (xv) considerable difficulties in attracting foreign investment; (xvi) lack of adequate market access opportunities for placing their few export products, and (xvii) high transport and transit costs.

Special and differential treatment and LLDCs

Special and differential treatment (SDT) is based on both the recognition of an inherent inequality in the global trading system that places developing countries in a disadvantageous position in international trade and the need to compensate for these disadvantages by treating these countries differently. This understanding is fundamental to the functioning of the multilateral trading system. It acknowledges the fact that developing countries are at different stages of economic, financial and technological development and consequently differ in their capacities as compared with developed countries in implementing multilateral commitments and obligations. It also recognizes that different levels of development achieved by WTO members require different sets of policies to achieve economic growth and development.

In brief, SDT means that WTO members accept a deviation from the general rule of *quid pro quo*, or reciprocity, for the developing countries. The basic approach to SDT includes primarily the principles of better market access for exports by developing countries and a lower level of obligations for them, as well as different expectations regarding the application of various multilateral trade agreements by developing countries.⁸²

⁸² See WT/GC/W/442, 19 September 2001.

Box 2: Low Diversification of Exports and Export Markets, and High Economic Vulnerability

The high export concentration of most LLDCs reflects constraints in market size, supply capacity and international competitiveness. Primary commodities, particularly energy, are the single most important category of LLDCs' merchandise exports. Three major oil-exporting LLDCs (Azerbaijan, Kazakhstan and Turkmenistan) accounted for about 42 percent of total LLDC exports in 2002. Exports of manufactured goods tend to be concentrated in products of low-skill and low-added-value industries.

A number of LLDCs have built up productive capacities in response to preferential arrangements granted by developed countries, in particular the EU and the United States. These measures have helped them to accelerate the process of industrialization by providing market access to LLDCs' products, but since the preferences were often granted selectively and sector-specifically, they also tended to increase their vulnerability vis-à-vis external developments that are beyond the control of LLDCs.

When the WTO Agreement on Textiles and Clothing (ACT) expired on 1 January 2005, several LLDCs were severely affected by the consequences of this. For example, foreign investors in Southern African LLDCs, which had invested there to take advantage of the tariff-free access to the United States market under the African Growth and Opportunity Act (AGOA), relocated their investments to more competitive countries. In Lesotho, where almost all export earnings used to come from the textile and clothing sector, six factories have been closed since the beginning of January 2005, with the loss of more than 10,000 textile workers' jobs. In Malawi, where nine textile companies operate under AGOA and textile exports were worth \$20 million in 2004, some 2,500 jobs have already been lost and about 11,000 workers face an uncertain future. In Swaziland, where AGOA products constituted 83 percent of the country's exports, 30,000 jobs are at stake.

In addition to the level of export concentration, the United Nations Economic Vulnerability Index (EVI) includes elements such as instability of agricultural production, instability in exports of goods and services, the economic importance of non-traditional activities in GDP and economic smallness, measured by the size of the population. However, "landlockedness" does not figure in this composite index.

Although the economic vulnerability indicator for the group of LLDCs is much higher than the average for all developing countries and only second to that of small island States, it has not yet been used to emphasize the dimension of this constraint for LLDCs, or small economies, in the WTO. With a view to better highlighting the special situation of LLDCs, these countries could argue for the inclusion of landlockedness in the EVI and ensure its utilization in the WTO, for example on decisions regarding the granting of special and differential treatment.

Source: South Africa: Textile firms fight for survival, 25 April 2005, www.bharattextile.com/newsitem/1994738.

Both the concept of SDT and its practical implementation have evolved since the notion of SDT was introduced in the Havana Charter. A milestone was the adoption of the Enabling Clause for developing countries, officially called the "Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries", under the GATT in 1979, which enables developed WTO members to give differential and more favourable treatment to developing countries.

However, while originally SDT was a recognition of the special problems of development faced by developing countries, as with the WTO agreements emphasis shifted more towards the special problems that developing countries may face in the implementation of the agreements. Moreover, SDT was further eroded by the fact that the WTO agreements went far beyond the traditional border measures covered under the GATT and included many more areas of domestic economic policy making. Currently, there are over 150 SDT provisions in the WTO Agreements and Ministerial Decisions. Some of these provisions are mandatory,

while the others are non-mandatory, or "best endeavour clauses".⁸³ The SDT provisions can be classified into six main categories:⁸⁴

- 19 provisions deal with transition periods, allowing beneficiary countries to implement and to sequence their trade and trade-related policy reforms at a pace consistent with their trade, development and financial needs, as well as to consider adjustment costs that are involved, and to provide them with time to build up the human and institutional capacities;
- 33 provisions allow for greater flexibility of commitments and of actions, and in the use of policy instruments by developing countries;
- 14 provisions help increase the trade opportunities of developing countries by avoiding or liberalizing restrictions on products of particular export interest to those countries, so as to promote and expand their exports to developed country markets;
- 50 provisions regulate the safeguarding of the interests of developing countries;
- 23 provisions relate specifically to LDCs; and
- 14 provisions address issues of technical assistance.

LLDCs that are WTO members benefit in general from SDT provisions, and several of them benefit also from provisions that grant SDT to LDCs, but there are no special provisions that grant SDT because of constraints related to landlockedness or that take this handicap expressly into account.

However, within the general SDT provisions, the following appear to be of particular relevance to LLDCs:⁸⁵

- GATT 1994, Art. XXXVI – access to world markets for developing countries dependent on exports of a limited range of primary commodities;
- GATT 1994, Art. XVIII and Addendum – granting of government assistance, tariff and other protection to promote infant industries in economies, that can only support a low standard of living and are in the early stages of development;
- Agreement on Technical Barriers to Trade (TBT), Art. 2 – exceptions to the use of international standards, including for reasons of fundamental climatic or geographical conditions; Art. 5 – exceptions to the use by central government bodies of recommendations on conformity assurance of international standardizing bodies, including for reasons of fundamental climatic or geographical factors and fundamental technological or infrastructural problems;

⁸³ In the legal terminology, mandatory provisions are basically those which contain strong commitments through such wording as "shall" and "mostly", while non-obligatory and "best endeavour" provisions include wording such as "should", "would", "committed to" and "wish to".

⁸⁴ WTO document WT/COMTD/W/77 and Rev.1 and Add. 1–4.

⁸⁵ Based on WTO documents WT/COMTD/SE/W/6, 23 October 2002; WT/WGTI/W/119, 11 June 2002; and WT/COMTD/W/77/Rev.1, 21 September 2001.

- Implementation of Art. VI of the Anti-dumping Agreement, Art. 6.13 – difficulties faced by small companies and the provision for assistance;
- Agreement on Subsidies and Countervailing Measures, Art. 27 and Annex VII – phasing out of export subsidies; termination of countervailing duty investigations relating to developing country members where the latter are small suppliers;
- Decision of the Doha Ministerial Conference on implementation-related issues and concerns regarding the Agreement on Subsidies and Countervailing Measures – consideration of an extended transition period for developing countries to eliminate certain export subsidies;
- Safeguards Agreement, Art. 9 – non-application of safeguard measures against small suppliers.

With a view to improving the current SDT mechanisms, LLDCs should actively participate in the ongoing efforts to establish a concrete and binding SDT regime which is responsive to the development needs of the developing countries by focusing on enhancing market access opportunities for them and providing policy options aimed at unlocking their growth and development potential. However, since these efforts will need to take into account the stipulations of paragraph 35 of the Doha Ministerial Declaration regarding sub-categories of WTO member countries, it appears best for the LLDCs to advance these efforts in the context of the WPSE, which seeks the recognition of characteristics and constraints of small and vulnerable economies by all WTO member countries, so as to facilitate the fuller integration of these economies into the multilateral trading system.

Negotiations on non-agricultural market access

The current negotiations on non-agricultural market access (NAMA) focus on (i) the tariff-cutting formula; (ii) the treatment of unbound tariffs; (iii) the issue of sectoral elimination; (iv) the flexibilities for developing country participants; and (iv) trade preferences.

Requests by LLDCs for duty-free and quota-free market access for their exports, particularly to developed countries,⁸⁶ have not yet been granted, partly because LLDCs as a group may have little to offer in terms of reciprocity. Their imports of capital and intermediate goods already carry zero or minimal tariffs. Moreover, the heavy reliance on trade taxes as sources of fiscal revenue often restricts the extent to which LLDCs are able to reduce these tariffs as concessions in the negotiating process. Nevertheless, the current negotiation process has direct implications for LLDCs.

Implications of the proposed formula approach to tariff reductions

The NAMA negotiations attempt to find a formula approach to tariff reductions that reduces tariffs on industrial products while taking into account the needs of developing countries to protect their industries. The proposed “Swiss” formula would aggressively reduce tariffs, and this would have serious consequences for a number of LLDCs that already have low tariff rates. A further overall tariff reduction as a result of the negotiations may result in even lower

⁸⁶ For example, during WTO Cancun Ministerial Conference (WTO document WT/MIN(03)/W/23, 14 September 2003); in the Almaty Programme of Action and Declaration, August 2003; and in the Communiqué of the 5th Annual Meeting of LLDCs, held in New York (WTO document WT/COMTD/SE/2, 7 October 2004).

tariffs, endangering fledgling industries in LLDCs and limiting their policy space for industrial development.

This formula operates in a non-linear manner, requiring deeper cuts for higher tariffs. LLDCs that maintain higher bound tariff structures, such as Bolivia, Botswana and Zimbabwe, would be particularly affected by this approach, which may be considered as contrary to the principles of less than full reciprocity and SDT.

Technical discussions focus on the methodology for converting non-*ad valorem* duties into *ad valorem* duty equivalents for the purpose of applying the tariff reduction formula. LLDCs such as Botswana, the former Yugoslav Republic of Macedonia, Swaziland and Zimbabwe, which have a share of non-*ad valorem* tariffs in their total tariff lines that is greater than 5 percent, should pay attention to the methodology proposed for converting their non-*ad valorem* tariff lines into *ad valorem* duty equivalents.

Implications of treatment of unbound tariffs

As for the treatment of unbound tariffs, the current proposal suggests that the current applied rates be multiplied by two to have a base level, followed by application of the tariff formula, which will result in new bound tariff levels. As a result of this proposal, the binding coverage is expected to be up to 100 percent of tariff lines, at an average level that does not exceed the overall average of bound tariffs for all developing countries. Hence, the treatment of unbound tariffs may become an issue of particular concern for some LLDCs with relatively low binding coverage (e.g. Swaziland and Zimbabwe).

Implications of sectoral elimination

Elimination of tariffs in seven key sectors (textiles, leather, footwear, fish products, electronics, motor vehicle parts, and gems and precious metals) was proposed. However, these sectors are of particular interest to many developing countries, including LLDCs. Without the current high levels of tariff protection for these sensitive sectors, local industries in LLDCs, particularly SMEs, would not have the capacity to withstand competition from abroad. Therefore, LLDCs may wish to join efforts aimed at exempting developing countries from sectoral elimination of tariffs.

Implications for trade preferences

LLDCs derive benefits from several trade preference schemes of developed countries, particularly the Generalized System of Preferences (GSP). Some developing countries also grant preferences within the context of the Global System of Trade Preferences (GSTP) and other multilateral preferential schemes. Preferential regional trading agreements, both with developed and developing countries, also play an important role for several LLDCs.⁸⁷

The granting of trade preferences is an exception to the MFN principle under the GATT. Certain provisions, such as the Enabling Clause, define the modalities of such exceptions, which should be generalized, non-reciprocal and non-discriminatory, as well as help facilitate and promote trade and respond positively to the development, financial and trade needs of developing countries. The WTO Appellate Body reconfirmed these modalities in April 2004.⁸⁸

⁸⁷ For example, the European Union grants special trade preferences to several LLDCs as these are beneficiaries of the Cotonou Partnership Agreement between African, Caribbean and Pacific (ACP) countries, which contains important provisions on the treatment of landlocked countries.

⁸⁸ See WT/DS246/AB/R, 7 April 2004.

However, it also pointed out that WTO members are in principle allowed to grant different tariffs to products originating in different GSP beneficiaries on condition that identical treatment is available to all similarly situated GSP beneficiaries. A WTO member that intends to grant additional tariff preferences under its GSP scheme would have to identify on an objective basis the special “development needs” of developing countries (such as “landlockedness”) which can be effectively addressed through tariff preferences.⁸⁹

The implications of this WTO Appellate Body's decision were reflected in the recent initiative of the EU regarding a new system of trade preferences for 2006–2008.⁹⁰

This scheme will focus on the poorest and most vulnerable developing countries that most need trade preferences to access the EU market. LLDCs may specifically benefit from the new “GSP+” tariff preferences granted to vulnerable countries that meet the criteria regarding sustainable development and good governance. Key features of the new EU GSP scheme are (i) preferences based on clear, transparent and non-discriminatory criteria; (ii) compliance with the 2004 WTO Appellate Body ruling discussed above; (iii) reduction to zero duty for a total of 7,200 products; and (iv) provision of special benefits to vulnerable countries that accept the main international conventions on social and human rights, as well as on environmental protection and good governance.

LLDCs in the accession process

As of 1 January 2005, nine countries of the 31-member group of LLDCs were not contracting parties of the WTO, namely Afghanistan, Azerbaijan, Bhutan, Ethiopia, Kazakhstan, the Lao People's Democratic Republic, Tajikistan, Turkmenistan and Uzbekistan.

Seven LLDCs have submitted their formal application for accession to the WTO and are currently in the process of accession negotiations, while Afghanistan has been granted observer status without its having submitted an accession request. Turkmenistan has no status at the WTO.

For acceding countries, accession to the WTO is a complex undertaking that often requires changes in their domestic economic policies so as to harmonize national trade legislation with international standards. It may also entail a loss in tariff revenue due to mandatory tariff cuts and the closure of non-competitive local industries as a result of market liberalization. On the other hand, as a member of the WTO, a country is (i) entitled to MFN treatment in the multilateral trading system; (ii) participates in a rules-based and therefore predictable trading regime; (iii) can contribute to the elaboration of international trading rules; and (iv) has access to international trade dispute settlement mechanisms.

The Almaty Programme of Action states that the accession of LLDCs to the WTO “should be further accelerated”, taking “into account their individual level of development, including special needs and problems caused by the geographical disadvantage. The development partners should provide assistance in this matter.”⁹¹

⁸⁹ See for more details Communication from the Commission of the European Communities to the Council, the European Parliament and the European Economic and Social Committee, Brussels, 7 July 2004.

⁹⁰ The EU Generalized System of Trade Preferences, Brussels, 20 October 2004.

⁹¹ Priority 3, Almaty Programme of Action.

Although it is possible to carry out simultaneously macroeconomic and trade reforms at a rapid pace in a highly inflationary environment before accession to the WTO, as for example Nepal did, the risk of undertaking reforms in such circumstances is that the acceding country might be forced to go back on its pledge and revert to its previous policies, for example by reversing tariff cuts owing to the lack of requisite resources that could not be mobilized otherwise.⁹² In order to avoid such complications, it is recommended that acceding LLDCs take into account the following list of indicative elements for consideration in accession strategies:

(a) Acceding LLDCs should pursue gradual trade reforms. Trade liberalization within the process of accession to the WTO should be sequenced in a manner that both does not harm domestic productive capacities and takes into account the limited budgetary and foreign exchange resources.

(b) If necessary, structural reforms at the macroeconomic level should be implemented, including the removal of price controls, measures to strengthen the domestic private sector through privatisation and elimination of State monopolies in foreign trade, the promulgation of foreign investment laws, liberalization of the foreign exchange market and currency devaluation.

(c) Quantitative restrictions should be eliminated, while import licences and prohibitions should be reduced as much as possible.

(d) Before commitments and concessions on tariff cuts are made, acceding LLDCs should find alternative sources of revenue, such as indirect taxes that compensate for the loss of tariff revenues. The introduction of a single, uniform tariff structure across the board, as well as a reduction in the number of tariff bands, could help to rationalize and to simplify the tariff regime and make it more efficient.

(e) Export restrictions should be abolished and measures to facilitate and support exports should be introduced at an early stage in accession negotiations.

(f) As developing countries, acceding LLDCs should not be required to undertake obligations beyond those relating to the strict application of the WTO Agreements.

(g) The accession process of landlocked LDCs (Afghanistan, Bhutan, Ethiopia and Lao People's Democratic Republic) should be accelerated in accordance with to the WTO General Council's Decision.⁹³

(h) During the accession process and upon its completion, LLDCs should continue to benefit from specific and targeted technical assistance, and the pace and scope of implementation of obligations and commitments emanating from the WTO Agreements should be linked to the availability of such assistance.

Concluding remarks

LLDC members of the WTO have made great efforts to implement their contractual obligations emanating from participation in the multilateral trading system. Although they have derived benefits from the rules-based trading environment under the WTO Agreements,

⁹² UNCTAD, *The Least Developed Countries Report 2004*.

⁹³ WTO document WT/L/508, 20 January 2003.

their specific characteristics and constraints of geographical remoteness, transit dependence and economic vulnerability, which cumulatively hamper more development-oriented participation by these countries in international trade, have not yet been fully recognized in the WTO.

The preparations for the forthcoming sixth WTO Ministerial Conference provide an opportunity for LLDCs to take stock of achievements so far and to develop realistic objectives for their further participation in the ongoing trade negotiations, in particular regarding paragraph 35 and other relevant parts of the Doha Declaration, as well as the 2004 July Package.

Key elements of a road map for the participation of LLDC member countries in WTO negotiations could include the following:

- Trade facilitation needs of LLDCs should be addressed as a priority, in particular through improvements to Articles V, VIII and X of GATT 1994. The explicit recognition of the transit problems of LLDCs in relevant articles could be a critical entry point for enhanced trade-related financial and technical assistance.
- Furthermore, transit WTO member countries and acceding transit countries should be required to apply the principles of national treatment and non-discrimination in their transit policy and in related administrative procedures vis-à-vis transit transport from LLDCs.
- Under the Work Programme on Small Economies and relevant negotiations, LLDCs need to prioritise issues of importance to them, define their objectives and goals and decide on which issues discussions should focus on immediately and which could be taken up later. They also should ensure that agreed rules and regulations are sufficiently flexible to serve the development needs of small and vulnerable economies and take into account the specific characteristics and constraints of LLDCs.
- SDT treatment for LLDCs should be given a concrete and operational content and aimed at increasing trade opportunities for those countries, while safeguarding their legitimate interests and granting appropriate transitional periods for the implementation of new commitments that take into account the availability of resources required for effectively implementing these commitments.
- LLDCs should have better access to markets, in particular those of developed countries, through the extension of duty-free and quota-free market access for their goods and services.
- LLDCs should work towards a decision that supports the continuation and extension of trade preferences and aims at the revision of trade-hampering requirements regarding rules of origin, administrative procedures and non-tariff barriers, including excessive technical barriers to trade (TBT) and SPS measures, so as to enhance the effective benefits derived by these countries from trade preference schemes.
- Relevant WTO Agreements should facilitate regional integration efforts by LLDCs and their developing partners.

- The accession process of interested LLLDCs should be facilitated, inter alia, by providing needed assistance and by ensuring terms and conditions that take into account the level of development of these LLDCs.
- The needs of LLDCs in terms of trade-related technical assistance and capacity building should be better recognized through an integrated, innovative, targeted and effective approach, particularly in the light of the 2004 July Package, which links the implementation of commitments, particularly regarding trade facilitation, to the availability of requisite support.
- LLDC members of WTO may wish to formalize their coordination efforts among themselves by establishing a Consultative Group, so as to enhance their impact in various WTO forums.

Chapter 3. Transport Infrastructure for Transit Trade of the Landlocked Countries in West, Central and East Africa⁹⁴

This chapter is divided into two parts. The first part provides an overview of transit transport issues in West and Central Africa. The second part examines transport infrastructure for transit trade from the perspective of East Africa. Specific problems are identified that affect the utilisation, development and maintenance of transit transport infrastructure. Options are then presented for more efficient use of transport infrastructure in both the landlocked and transit African countries in these regions.

Introduction

There are 24 countries in West and Central Africa,⁹⁵ five of which are landlocked: Burkina Faso, the Central African Republic, Chad, Mali and Niger. As countries that have no sea coast, they must transport most of their merchandise trade through one or more transit countries. Although the United Nations Convention on the Law of the Sea stipulates that "land-locked states shall enjoy freedom of transit through the territory of transit states by all means of transport",⁹⁶ transit trade is often beset by a wide array of administrative, technical and logistical problems. Moreover, the necessity to transit through foreign territory makes landlocked countries dependent on their neighbours' transport infrastructure, increases transaction costs and adversely affects their international competitiveness.

Furthermore, for Burkina Faso, the Central African Republic, Chad, Mali and Niger, the right of access to the sea is seriously impaired by regional transit transport systems that are among the least developed in the world. In general, the transport infrastructure is poor and deteriorating, while significant non-physical bottlenecks impede the fluidity of transit traffic in the regions' main transit corridors. The poor condition of transport infrastructure also prevents large parts of the population from participating in the modern economy.

In East Africa, on the other hand, there are five LLDCs: Burundi, Ethiopia, Malawi, Rwanda and Zambia; and four coastal or transit countries: the Democratic Republic of the Congo, Kenya, Sudan and the United Republic of Tanzania. In practical terms, the Democratic Republic of the Congo is regarded as a landlocked country because almost all overseas trade must pass through the ports of neighbouring countries.

These countries in East Africa have registered significant progress in terms of shorter transit times due to improved road development. However, the shift to road from railway transport, due to poor infrastructure and lack of adequate locomotive and wagon availability, has kept transit costs high.

⁹⁴ This chapter is a condensed version of two papers by UNCTAD: "Transport Infrastructure for Transit Trade of the Landlocked Countries in West and Central Africa: An Overview", April 2007 (UNCTAD/LDC/2007/1) and "Improving Transit Transport in East Africa: Challenges and Opportunities", April 2007 (UNCTAD/LDC/2007/2).

⁹⁵ Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Sao Tome and Principe, Senegal, Sierra Leone and Togo.

⁹⁶ United Nations Convention on the Law of the Sea. Part X: Right of Access of Land-Locked States to and from the Sea and Freedom of Transit, para. 125, 10 December 1982.

Despite some signs of progress, the landlocked and transit developing countries in West, Central and East Africa face ongoing financial and technical problems in addressing the challenges of developing and maintaining an efficient transit transport system.

In recognition of these challenges, the Almaty Programme of Action (APoA), adopted in 2003, recognized the critical importance of the transport sector for economic growth and development. It set out a framework for the establishment of efficient transit transport systems for landlocked developing countries (LLDCs) and emphasized the need for partnerships between LLDCs and transit developing countries, as well as with their bilateral and multilateral partners. The APoA also identified seven priority areas for infrastructure development and maintenance: rail transport, road transport, ports, inland waterways, pipelines, air transport and communications.⁹⁷

I. TRANSIT TRANSPORT IN WEST AND CENTRAL AFRICA

A. Overview

In West and Central Africa, transit freight is carried through 13 major transit corridors: seven road corridors, five rail or rail/road corridors and one rail/water corridor. This transit transport infrastructure is, however, among the least developed in the world. It is often poorly maintained, technically outdated and weak in terms of intermodal connectivity. Freight movement along the main transit corridors is hindered by physical and non-physical bottlenecks, which cause transport costs to be high, thus adversely affecting export competitiveness and posing formidable obstacles to the import of essential capital goods, food and fuels. The Governments of these countries have signed numerous bilateral, multilateral and regional agreements on transit transport cooperation in the two regions, but their practical implementation still leaves room for improvement.

Road transport is the most important mode of transport in the region and has steadily gained in importance for transit transport, accounting for about nine tenths of transit freight. However, the condition of the roads is often insufficient for the safe and expeditious movement of cargo.

Rail transport is the second most important mode of transport in West Africa. It links two capitals, Ouagadougou (Burkina Faso) and Bamako (Mali), with two regional seaports, Abidjan (Côte d'Ivoire) and Dakar (Senegal), respectively. Niamey (Niger) cannot be reached by rail, and hence goods to and from the country need to take the Cotonou–Niamey rail-and-road corridor.

Railways play a less important role in international transit transport in Central Africa, as national railway lines are limited and not interconnected. Only Cameroon has a significant railway infrastructure, which is operated by Camrail, a private company. The railway in Cameroon is not only important for domestic transport, but also serves as a means to facilitate the transit trade with Chad and the Central African Republic.

⁹⁷ Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries. Annex to the Report of the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation. Almaty, Kazakhstan, 28 and 29 August 2003. A/CONF.202/3.

Inland waterways transport is little used in West Africa despite the potential offered by the Niger River. Water is the second most important mode of transit transport in the Central African Republic. Transit cargo between Brazzaville and Bangui can be shipped on the Congo and Oubangui rivers. However, the Oubangui River is navigable only eight months in the year because of low water levels in the dry season.

The 1,070-km Chad–Cameroon pipeline, supported by the World Bank, is the major transit pipeline in the region, transporting crude oil from the Doba oilfields in southern Chad to the coast of Cameroon. The \$4 billion project also includes three pump stations and the offshore marine terminal near Kribi in Cameroon.⁹⁸ Other countries in the regions also run domestic pipeline networks.

There are several major international airports in the region, but these hubs are located outside landlocked countries. The bankruptcy of a major airline in 2002 that serviced the regions dealt a heavy blow to air transport in West and Central Africa. However, air transport has recovered from this setback, although air freight is still relatively insignificant, mainly owing to the high cost. Nevertheless, the full implementation of the Yamoussoukro Decision of 1999 on the liberalization of the air transport markets in Africa is expected to have positive effects on the intra- and interregional air connectivity of countries in West and Central Africa.

West and Central Africa are relatively well equipped in terms of the number of maritime ports. In most of the countries, port operations have been concessioned to private operators, with the expectation that this will improve the quality of services. The ports of Abidjan (Côte d'Ivoire), Dakar (Senegal), Douala (Cameroon) and Tema (Ghana) are of particular importance for the merchandise trade of the landlocked countries in Central and West Africa.

Table 11: Transport Infrastructure Indicators for West and Central Africa, 2004

Length of roads	670 148 km
of which	
paved	107 785 km
unpaved	562 263 km
Length of railway tracks	18 134 km
Length of inland waterways	27 731 km
Number of airports	621
of which	
paved runways	145
unpaved runways	476
Number of maritime ports	48
Length of pipelines	12 692 km

Source: Proinvest/Krief Consultants: Transport sector profile — West and Central African countries. Paris, 2005, p. 3.

Shortcomings in terms of inadequate regional cooperation, insufficient use of information and communications technology (ICT) due to technical and user problems and human resource constraints cause non-physical bottlenecks that keep transport costs unduly high. In particular, customs documents are not harmonized and border-crossing procedures are

⁹⁸ World Bank: Chad–Cameroon Petroleum Development and Pipeline Project, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTREGINI/EXTCHADCAMPIPELINE/0,,contentMDK:20516071~menuPK:843292~pagePK:64168445~piPK:64168309~theSitePK:843238,00.html>.

lengthy and cumbersome despite regional agreements on the free movement of persons and goods.

B. Road transport

Road transport is the principal mode of transport for the export and import of goods of landlocked countries in West and Central Africa. Although transport by railway may be more economical for bulk transport of key regional products, such as cotton, concerns regarding the regularity of railway services and capacity bottlenecks at the railway terminals, as well as problems related to the poor conditions of a large part of the regional railway lines, militate against the wide use of rail transport in favour of the more expensive but more reliable road transport.

Road infrastructure density and quality vary from country to country (see Table 11). In general, roads are in better condition in West Africa than in Central Africa. Ghana and Côte d'Ivoire have the best road infrastructure among the transit countries. Before the outbreak of civil unrest in Côte d'Ivoire in 2002, the corridors through this country were the most active ones in the subregion.

The road infrastructure is less dense and has more severe maintenance problems in Central Africa. Cameroon is the main transit country for the Central African Republic and Chad. Four fifths of the transit transport traffic in Central Africa passes through two road corridors that go through Cameroon — the Douala–Bangui corridor (1,500 kilometres) and the Douala–N'djamena corridor (2,100 kilometres).

Road corridors through other countries, such as Congo and Gabon, the Democratic Republic of the Congo, Sudan, the Libyan Arab Jamahiriya, Niger and Nigeria, play minor roles. Nonetheless, such corridors have great potential and can not only help the two landlocked Central African countries, Chad and Central African Republic, diversify their transit partners but also contribute to greater regional trade and integration. In particular, links to Nigeria could help Chad reduce transport costs, since Port Harcourt (Nigeria) is the closest seaport to N'djamena.

With a view to upgrading the quality of road infrastructure in West and Central Africa, governments and regional economic communities, in cooperation with bilateral and multilateral donors, notably the African Development Fund, have initiated in recent years several national and regional road rehabilitation and transport facilitation projects. Most prominent among these projects are the Tibiri–Dakoro and Madaoua–Bouza–Tahoua road project in Niger, the PST (transport sector programme) 2000–2008 in Burkina Faso and the rehabilitation project of the southbound Bamako–Dakar Corridor, all of which are expected to lead to a substantial improvement in the road infrastructure.⁹⁹

Freight distribution quotas are applied in certain road transit corridors with a view to ensuring that transporters from both landlocked and transit countries share the gains and benefits.

⁹⁹ See African Development Fund: Appraisal report: Road rehabilitation and transport facilitation programme on the southbound Bamako–Dakar corridor. 2005; African Development Fund: Appraisal report: Tibiri–Dakoro and Madaoua–Bouza–Tahoua road rehabilitation project. 2005; and sur le Programme de Transport Routier Régional de la CEDEAO, Abuja 2002, or the UEMOA Programme Régional de Facilitation des Transports et Transit Routiers de l'Afrique de l'Ouest, jointly developed with ECOWAS in 2003.

Usually, two thirds of the transit freight at a port is allocated to carriers from a landlocked country and one third to those from a transit country.

Although these quotas were established with development objectives in mind, such as to help develop the transport sector of landlocked countries, their strict application can give rise to efficiency issues and may have unintended results. In particular, transport quotas may cause transport capacity bottlenecks and increase transport costs, if the supply, capacity and quality of vehicles are not the same in the landlocked country as they are in a transit country. Therefore, the quota system may economically be disadvantageous to landlocked countries if the effects of the increase in transport costs outweigh the benefits generated in the transport sector.

In addition to problems related to the physical state of road infrastructure and to transport quota issues, road transport in West and Central Africa is beset by various additional constraints. A key problem is the obsolescence of a large part of the truck fleet and the increasing number of second-hand vehicles, both of which increase operating costs and the frequency of accidents. Moreover, most vehicles lack equipment that could help expedite transit transport. For instance, these vehicles cannot be sealed or cannot be connected to cargo-tracking facilities.

Governments are concerned about ageing vehicle fleets and have taken various measures to remedy the situation. The Government of Mali, for example, has put in place a mechanism consisting of tax exemptions for new vehicles in order to foster the renewal of the truck fleet for inter-state goods transportation. In Senegal, the government prohibited the importation of vehicles more than five years old.¹⁰⁰ The Government of Niger, where an estimated 80 percent of vehicles are in poor shape, is using tax incentives to encourage transporters to renew their fleet of vehicles.¹⁰¹

A second serious problem relates to the widespread disregard of axle load regulations by transporters. Trucks are overloaded to compensate for low freight rates per ton as a result of intense competition among transporters due to an oversupply of transport capacity relative to the volume of transport goods. In addition, the export/import imbalance — for example, imports represent about 85 percent of the total transport volume to and from landlocked countries in the West African Economic and Monetary Union states (UEMOA)¹⁰² — also encourages overloading of inbound trucks to offset the loss incurred as a result of the lack of sufficient volumes of outbound cargo to the seaports. This practice not only contributes to the deterioration of road infrastructure but also poses serious road safety risks.

However, probably the most serious impediments to the expeditious transit of goods on roads in West and Central Africa are the numerous roadblocks and the concomitant imposition of *droits de facilitation*. The latter may include a variety of illicit financial charges, ranging from community road tolls to "document control fees" to outright requests for bribes.

Roadblocks and other checkpoints have proliferated to the extent that there are involuntary stops at short intervals (see Table 12). Even if the toll fees extorted at each of the checkpoints

¹⁰⁰ African Development Fund: Appraisal report: Road rehabilitation and transport facilitation programme on the southbound Bamako–Dakar corridor. 2005, p. 9.

¹⁰¹ African Development Fund: Appraisal report: Tibiri–Dakoro and Madaoua–Bouza–Tahoua road rehabilitation project. 2005, p. 7.

¹⁰² African Development Fund: Appraisal report, p. 9.

are relatively small, they add up to sizeable sums in their totality. Economically, they represent a loss to the transport economy and, in addition, make road taxes on a two-lane road in West Africa as expensive as on a four-lane highway in Europe.¹⁰³

Table 12: Frequency of Checkpoints on Major Transit Transport Routes in West Africa

Route	Distance (km)	Number of checkpoints	Frequency (km)
Lagos–Abidjan	992	69	14
Niamey–Ouagadougou	337	20	17
Lomé–Ouagadougou	989	34	29
Cotonou–Niamey	1 036	34	30
Abidjan–Ouagadougou	1 122	37	30
Accra–Ouagadougou	972	15	65

Source: OECD/Sahel and West Africa Club: *Regional atlas of transportation and telecommunication in the ECOWAS zone*. 2005, p. 16.

Efforts to reduce the number of roadblocks are supported by projects such as the road rehabilitation and transport facilitation project on the southbound Bamako–Dakar corridor. This project aims, *inter alia*, at a 20 percent reduction of invisible transport costs by limiting checks at borders and at the arrival point for transit transport by container, by tanker and, under certain conditions, by trucks sealed at the point of departure. Loan disbursement under this programme is linked to the implementation of policies that reduce the number of road checkpoints in both Mali and Senegal.¹⁰⁴

C. Rail transport

Railways operate in 15 of the 24 countries of West and Central Africa. However, only two of the five landlocked countries — Burkina Faso and Mali — have railways on their territories. Goods to and from Niger, Chad and the Central African Republic can be shipped on combined rail-and-road corridors.

Since the majority of the tracks only run perpendicularly from the coast into the hinterland without interconnections among them, regional railway networks do not exist. The lines are mostly geared to the export of large quantities of minerals. Most of the lines are single track lines and operated with diesel engines. Moreover, many lines date back to the nineteenth century and are therefore in a precarious state. The rolling stock is outdated and inadequate in terms of quantity and quality. In addition, low volumes of return freight keep wagons unduly idle at terminal points.

Interruptions of rail services due to technical problems are common. Moreover, many railway companies have not been profitable as parastatals or state-owned enterprises and therefore lack the funds for maintenance work and the delivery of better services. Unreliable railway services have made the railways sector unattractive to transporters. Consequently, the share of railway transport has been declining relative to road transport.

¹⁰³ In 2005, a heavy-load tractor-trailer paid a toll of 293 Euro for the 1369-km toll road between Brussels and Barcelona, i.e. 22 Euro per 100 km. A transporter using the 1245-km Bamako–Dakar route had to pay on average 17 to 20 Euro per 100 km, or a total of 211 to 249 Euro, in the year 2000. See OECD/Sahel and West Africa Club: *Regional atlas of transportation and telecommunication in the ECOWAS zone*. 2005, p. 16.

¹⁰⁴ African Development Fund: *Appraisal report*, p. 10.

However, the privatization of railways and subsequent investments in rolling stock and other hardware, as well as staff retraining and restructuring, opened up new possibilities for the rehabilitation and modernization of the railway sector. The privatization of the Abidjan–Ouagadougou line in 1995 led to a massive increase in goods traffic. By the year 2000, about one half of all Burkina-bound cargo from the port of Abidjan was hauled by rail. However, the outbreak of civil unrest in Côte d'Ivoire had a disastrous impact on its operation. The line had to be closed repeatedly and goods traffic fell by 80 percent between 2002 and 2003. Although operations have resumed temporarily, the political situation in Côte d'Ivoire remains unstable and it is difficult to insure goods.¹⁰⁵

The railway line from Dakar to Bamako has been run since 2003 under a private management contract, which grants leasing rights to the Canadian–French consortium Transrail for a 25-year period, with an option of renewal for another 10-year lease. The private consortium has committed itself to annual royalty payments of about \$900,000 to each country and investments of \$72.7 million over a five-year period to upgrade the railway and to renew the rolling stock.¹⁰⁶ In spite of the consortium's obligation to maintain the passenger service, Transrail has concentrated on the transport of goods, which increased six fold within a short period of time. However, this progress was achieved at the expense of the railway connections of numerous isolated communities, where stations were closed. This closure curtailed the economic activity that had developed around the railway line.

Transit cargo to and from the landlocked countries in Central Africa is also carried through a rail/inland waterways corridor that includes the Congolese rail corridor from Pointe Noire to Brazzaville (512 km). Freight is then trans-shipped from rail to waterways transport (and vice versa) at Brazzaville.

Although about 25 to 30 million tons of ores and minerals are carried annually by rail in West and Central Africa, the railway sector currently plays only a limited role in the transit transport business. However, the increasing demand for ores and minerals from Asian countries could make the rehabilitation of existing railway lines and the building of new ones an attractive proposition for foreign direct investment. Several projects to rehabilitate and expand railway lines with the funding of local and foreign private investors are under discussion — for example, in Ghana, and also the AFRICARAIL project, which aims *inter alia* at building new double-track lines to interconnect the existing railway circuits of Benin, Burkina Faso and Togo. Once completed, these projects could revitalize the rail sector and significantly improve the transit transport situation of landlocked countries in West Africa.

D. Inland waterways transport

Inland waterways transport is used in several countries in West and Central Africa. However, the period of navigability of rivers and lakes is often limited to the rainy season. Longer dry seasons resulting from climate change could further shorten navigation periods on inland waterways in those countries. Moreover, inland waterways are typically used for domestic transport rather than being part of international transit transport connections.

Nevertheless, transit cargo is still transported on waterways in Central Africa, where the Congo River and its tributaries, the Oubangui and the Shanga rivers, are used for transit traffic, including intermodal transport in combination with rail transport. Traffic in the

¹⁰⁵ OECD: African Economic Outlook 2005–2006: Burkina Faso, pp. 161–162.

¹⁰⁶ U.S. & Foreign Commercial Service and U.S. Department of State: Senegal: French-Canadian consortium to operate Dakar–Bamako train. 2003.

Bangui–Brazzaville–Pointe Noire rail-waterway corridor is currently one fifth of that in the Douala–Bangui road corridor. The rail-waterways corridor was much more active in the 1980s, when more than half of all freight to and from the Central African Republic was carried over this route. However, lack of maintenance has severely reduced the capacity of the corridor. In addition, the quantity and the quality of transport services offered by local ships and barges have also declined. Freight volume fell by 92 percent, from 223,635 tons to 18,218 tons, between 1985 and 2000.

Waterways transport still has potential, particularly in Central Africa. Since it is more economical than road transport, it can help reduce transport costs for the Central African Republic and the southern regions of Chad. However, efficient use of this mode of transport has been hindered by inadequate cooperation between landlocked and transit countries and by political instability in the subregion. Moreover, a return to the freight volume levels of the 1980s would necessitate considerable investments both in transportation equipment and in maintenance of the waterway installations.

E. Maritime ports

The coastal states of West and Central Africa are relatively well equipped in terms of number of maritime ports. Their handling capacity is largely in line with transport demand, and the availability and the technical condition of equipment are in most cases better than for other transport subsectors. Most of the main seaports have been transferred from the public to the private sector and several of them are operated by large international enterprises.

Several maritime ports have recently invested in equipment that helps expedite the release of goods and makes transit traffic more secure. Thus, in February 2006 the port of Dakar participated in the testing of a new seal system to be used along the 2,700-km corridor from Dakar (Senegal) via Bamako (Mali) and Ouagadougou (Burkina Faso) to Niamey (Niger). It can be fitted to trucks with a cargo capacity of between 10 and 40 tons.¹⁰⁷ The port of Abidjan began operation of the world's first high-energy (6MeV) double-tunnel X-ray scanner on 6 March 2007. This scanner, which can handle up to 30 trucks per hour, will help reduce bottlenecks in customs clearance at the port and speed up the release of goods.¹⁰⁸ The actual ship/port turnaround times of seven days or more in most West African maritime ports continue to exceed the target timeframe of 72 hours.¹⁰⁹

F. Border-crossing facilities

Border-crossing formalities are complicated and cumbersome, mainly because of the multiplicity of customs and police documents. Countries use their own transit documents, which are not mutually accepted. One-stop windows and joint customs facilities are more the exception than the rule. The use of modern information and communication technology, for goods inspection, data collection and data processing, is still limited and/or subject to technical problems that reduce the efficiency of automated customs data management systems, such as electricity shortages or computer maintenance issues, as well as problems

¹⁰⁷ Transit Routier: La caravane test du système de grille plombé (Sgp) lancée hier. *Le Soleil*, Dakar, 14 February 2006, http://www.lesoleil.sn/article.php3?id_article=7779.

¹⁰⁸ World of expertise: Inspection of goods: Start of operation of the 1st X-ray scanner for the container controls at the Abidjan port authority — Ivory Coast. 21 March 2007, <http://www.bureauveritas.com/webapp/servlet/RequestHandler?mode=displayArchiveDetail&contentID=83369&nextpage=ViewArticle.jsp>.

¹⁰⁹ African Development Fund: Appraisal report, p.5.

related to insufficient manpower training and skills in computerized data collection and data processing.

The major ports have bonded warehouse and storage facilities for dangerous goods, bulk commodities and containers. However, problems often arise at trans-shipment points in rail-and-road corridors, where the limited off-take (output) capacity of railways and/or the shortage of transportation equipment lead to a backlog of goods in transit. In addition, safe parking facilities for trucks that also meet minimum sanitary requirements for drivers are often lacking at border-crossing points.

G. Transit trade in West and Central Africa and regional political instability

The safe and expeditious movement of cargo to and from landlocked countries, particularly by road and by rail and on inland waterways, depends on free and unhindered access to transport infrastructure in both landlocked and transit countries. Civil strife, uprisings and other forms of political instability have seriously affected transit trade of landlocked countries in West and Central Africa in the past and continue to do so. However, affected LLDCs and entrepreneurs have responded to some of these challenges as opportunities (see Box 3).

H. Conventions and Agreements Regulating the Use of Trade-Related Transit Transport Infrastructure in West and Central Africa

The efficient use of neighbouring countries' transport infrastructure by landlocked countries necessitates an adequate legal framework. Within the regional context and under the auspices of the Economic Community of West African States (ECOWAS), UEMOA, Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC) and the Maritime Organization of West and Central Africa (MOWCA), landlocked and transit countries in West and Central Africa have concluded more than 40 regional, multilateral and bilateral conventions and agreements on transport and logistics issues. They cover issues such as trade in goods and services, access to seaports, transit transport, and the harmonization of documents, taxes, duties and nomenclature, as well as agreements

Box 3: Transit Trade and Regional Political Instability: An Opportunity

A particularly grave impediment to transit trade in the region has been the political crisis in Côte d'Ivoire, affecting the trade flows of Burkina Faso, Mali and Niger. Before the crisis, more than half of the goods transported to and from those countries was through the port of Abidjan. The other half was shared between Cotonou (19 percent), Lomé (17 percent), Dakar (11 percent) and Tema (1 percent). Both the geographical location and the relatively good quality of the road and rail transport infrastructure in Côte d'Ivoire helped establish this regional dominance. However, since the outbreak of political instability, transit trade has been diverted to Tema and Lomé. Between 2002 and 2003, the traffic of goods in transit between Abidjan and the landlocked countries fell to 20 percent of the original level. Operations with Burkina Faso have declined from 390,000 tons to 15,000 tons. Whereas Burkina Faso exported 80 percent of its cotton through Abidjan in 1998, in 2003 not one export transaction from that country was registered with the Ivorian port. Conversely, the cargo volumes between the port of Tema and Burkina Faso and Mali increased by a factor of 8 and 16 respectively between 2000 and 2003.

Although escorted transit truck convoys were organized in Côte d'Ivoire, transporters quickly adapted to the new situation by switching to routes through Ghana, Benin and Togo, whose governments were cooperative and facilitated the dispatch of goods through their ports. In fact, the Ivorian crisis showed the flexibility and ingenuity of the local transport sector in swiftly adapting to changing circumstances and reaping the benefits resulting from new opportunities. In addition, the crisis had the effect of reviving major infrastructure projects in the region and heightened the need for closer regional cooperation and integration in the transport sector.

Source: Carana Corporation/USAID: Impact du Transport et de la Logistique sur la Concurrence Commerciale de Mali. 2004. p. 30.

on market sharing and specialized truck transport.

The three most important multilateral transit agreements in West Africa are the Inter-State Road Transport Convention (IST), the Inter-State Road Transit Convention (ISRT) and the agreement on the West African Brown Card insurance scheme.

Given the number of agreements and conventions regulating the use of transport infrastructure for transit traffic in West and Central Africa, and the overlap between and among them, their application and interpretation are not without differences of opinion. In practice, these legal instruments are often ignored or national regulations take precedence over regional agreements. Thus, the IST Convention, which was expected to facilitate road transport by ensuring greater fluidity of transit traffic, has failed to reduce the number of roadblocks in most transit corridors. The application of the ISRT Convention, which was to replace national transit documents by a ISRT booklet, representing a single ECOWAS transit document, has been plagued by issues related to the sharing of revenues from the ISRT booklet sales, differences regarding the ISRT guarantee system and a reluctance to accept transit documents issued by other member states since there were doubts about the quality of the customs clearance system in partner countries. Lack of cooperation and trust between insurance companies is another important reason for the inadequate application of the ECOWAS Brown Card insurance scheme.

In Central Africa, a set of agreements on carriage of goods by road were adopted in the second half of the 1990s under the auspices of the CEMAC. These agreements include the Inter-State Convention on Carriage of Goods by Road, an interstate multimodal transport convention and a regional insurance scheme, the so-called Orange Card Insurance System. However, despite these regional conventions, bilateral agreements and national regulations continue to dominate legal arrangements for transit transport activities in the subregion.

The bilateral agreements linking landlocked countries in West and Central Africa and their transit developing neighbours cover cooperation on all modes of transport and all aspects of transit transport, including transport infrastructure, transport coordination and transport facilitation. Table 13 provides an overview of bilateral transit and transport agreements between the landlocked countries in West and Central Africa and neighbouring transit countries.

Table 13: Bilateral Agreements Between Landlocked Countries in West and Central Africa and Their Transit Neighbours on Transit Traffic Issues

	Benin	Côte d'Ivoire	Senegal	Togo	Cameroon
Burkina Faso	a, b, c	a, b, c, d	a, b, c	a, b, c	
Mali	a, b, c	a, b, c	a, b, c, d	a, b, c	
Niger	a, b, c, d	a, b, c	a, b, c	a, b, c	
Central African Republic					a, b, c, d
Chad					a, b, c, d

a = port agreement; b = transit agreement; c = road transport agreement; d = rail transport agreement.
Source: N'Guessan N'Guessan. *Improvement of transit transport in West Africa*. UNCTAD/LDC/ 003/2, Geneva, 2003, p. 18.

The level of implementation is generally higher for bilateral agreements than for multilateral ones in West and Central Africa, because governments tend to show a greater commitment to bilateral agreements. As a result, such agreements often take precedence over multilateral

agreements. Problems arise whenever international agreements enter into conflict with national legislation.

I. Policy Initiatives to Improve Transport Infrastructure in West and Central Africa

There have been several regional initiatives aimed at improving the availability and use of trade-related transit transport infrastructure for landlocked countries in West and Central Africa. Most of these initiatives are inspired by the New Partnership for Africa's Development (NEPAD) Short Term Action Plan on Infrastructure and are in conformity with the Sub-Saharan Africa Transport Programme (SSATP), conceived jointly by the World Bank and ECA. Regional economic communities such as ECOWAS, UEMOA and CEMAC are also important institutions that cooperate with multilateral and bilateral donors, as well as regional financial institutions, in the design and implementation of policies for improved transport infrastructure in West and Central Africa.

ECOWAS and UEMOA are joining forces to implement a road transport and transit facilitation programme aimed at improving the competitiveness of member states by making regional trade more fluid through the improvement of transport systems and the elimination of non-tariff barriers. The components of the programme will be implemented, tested and evaluated on an experimental basis between 2004 and 2009. Full implementation will follow in 2009. The programme has the following components:

- Harmonization of the Inter-State Road Transit Convention to pave the way for the adoption of a single ISRT document;
- Establishment of surveillance systems to identify and discourage bad practices along key transit transport corridors;
- Building of joint border posts to speed up customs formalities at borders; and
- Extension of the World Bank Initiative on HIV/AIDS Prevention.¹¹⁰

While many policy initiatives by regional economic communities for the improvement of transit transport infrastructure date back to their foundation and major programmatic documents were issued in the meantime,¹¹¹ progress in implementation has been slow. Lack of funds and human resources constraints, but also the lack of political will to implement and enforce regional transit transport programmes and agreements, are the major factors underlying the limited progress achieved.

A new effort to accelerate progress in meeting the urgent infrastructure needs, including transit transport, of African countries in support of economic growth and development was launched with the foundation of the Infrastructure Consortium for Africa (ICA) in 2005. The ICA constitutes a tripartite relationship involving bilateral donors, multilateral agencies and African institutions.¹¹² Its objective is to make its members more effective in supporting

¹¹⁰ World Bank: Taming HIV/AIDS on Africa's Roads. SSATP Note 35, May 2003.

¹¹¹ See Document sur le Programme de Transport Routier Régional de la CEDEAO, Abuja 2002, or the UEMOA Programme Régional de Facilitation des Transports et Transit Routiers de l'Afrique de l'Ouest, jointly developed with ECOWAS in 2003.

¹¹² ICA members: G8 donors, World Bank, AfDB, EU, EIB and Development Bank of Southern Africa. ICA observers: African Union, NEPAD secretariat, ECOWAS, SADC, IGAD, COMESA and EAC.

infrastructure development in Africa by pooling efforts in selected areas, such as information sharing, project development and good practice.

The ICA addresses both national and regional constraints on infrastructure development, with an emphasis on regional infrastructure, recognising the particular challenges at this level. However, since most infrastructure services are addressed at the national level, within national budgets and national implementation frameworks, it will also become active at the country level. In addition, critical issues of harmonization will need to be addressed at the national level.

The ICA is not a financing agency; rather, it was conceived as a platform to broker more donor financing for infrastructure projects and programmes in Africa, in particular for the implementation of regional projects under NEPAD's Short Term Action Plan (STAP). Between October 2005 and June 2006 funding was committed for 11 NEPAD-STAP projects totalling \$764.3 million. About 60 percent of these funds will be spent in the ECOWAS region on activities that include road construction, air transport and safety, and transport facilitation projects.

II. TRANSIT TRANSPORT IN EAST AFRICA

A. Recent Developments Affecting Transport and Related Infrastructure

Availability of alternative transit transport corridors and routes

LLDCs in East Africa have two distinct advantages vis-à-vis other regions in Africa: (a) excellent transit transport cooperation with their transit neighbours; and (b) corridor and route choices. Burundi, Rwanda and Uganda use both the Northern and Central Corridors; each corridor offers road and intermodal transport options. Malawi and Zambia have access to the port of Dar es Salaam, as well as to ports in Mozambique and South Africa. Ethiopia uses the port of Mombasa, in addition to Djibouti, while southern Sudan uses Mombasa and Port Sudan.

The ports of Dar es Salaam and Mombasa compete for transit trade, but their main constraint is weak off-take capacities, notably railway transport services, which have continued to under perform. In this regard, Mombasa is better served than Dar es Salaam, mainly because the Mombasa–Kampala–Kigali road is paved, while the Dar es Salaam–Kigali road has gravel sections that are difficult to pass during the rains. However, the road is expected to be completely asphalted in 2007.

Despite its weaker transport infrastructure in comparison with the Northern Corridor, the Central Corridor is quite competitive and likely to become even more competitive once the road works are completed. Its competitiveness rests on (a) direct access to the sea (with no need to transit other countries) for six developing countries (Burundi, Democratic Republic of the Congo, Malawi, Rwanda, Uganda and Zambia); (b) shorter distances to the sea for Burundi, the Democratic Republic of the Congo and Rwanda; (c) lower transit tariffs; (d) shorter transit times; and (e) streamlined customs and administrative procedures (see Table 14).

Table 14: Comparison of Transit and Ocean Freight Costs of Imports to a Select Number of Landlocked Countries from North-West Europe or Japan in 2007 (US Dollars, Per 40-Foot Container or Equivalent Unit)

		Approximate land transit distance, time and rate				Approximate ocean rate	
LLDCs	Transit Corridor	Distance (km)	Time (days)	Mode	Rate (US\$)	Port	Rate (US\$)
Lusaka (Zambia)	Southern	2 400	8	Road	3 600	Dar es Salaam	1 250
Lilongwe (Malawi)		2 100	8	Road	3 600	Dar es Salaam	1 250
Kigali (Rwanda)	Central	1 530	5	Road	4 200	Dar es Salaam	1 250
Kampala (Uganda)		1 588	4	Rail	1 500	Dar es Salaam	1 250
Kampala (Uganda)	Northern	1 300	6	Road	3 500	Mombasa	1 250
Kigali (Rwanda)		1 800	9	Road	6 500	Mombasa	1 250

Source: UNCTAD paper (UNCTAD/LDC/2007/2)

Northern Corridor

Mombasa port

The port of Mombasa is the gateway to the Northern Corridor. In addition to local goods, it handles transit trade to several countries, namely Burundi, the Democratic Republic of the Congo, Ethiopia, Rwanda, Sudan, Uganda and the United Republic of Tanzania (see the map in Figure 1 at the end of the chapter).

Table 15: The Northern Corridor

From	Destination and distance (in km)		
Mombasa	Kampala 1 300	Kigali 1 800	Bujumbura 2 100

The port of Mombasa is managed by a government company, the Kenya Ports Authority (KPA). It is the largest port on the east coast of Africa, with 21 berths and extensive facilities that include cold storage, warehousing and container terminals.

In recent years, the KPA has had to grapple with a number of problems, many of which were outside its control: (a) the last 10 years coincided with a slowdown in Kenya's economy, affecting local imports and exports; (b) the computerization of customs in Kenya was delayed until 2005; (c) the port itself lacked funds to undertake essential investments; and (d) under investment in the railway and road infrastructure weakened the off-take capacity. These combined negative influences seriously constrained KPA operations and efficiency.

Despite these problems, however, port throughput continued to rise, though at a slow pace (see Table 16). Since 2005, the momentum has accelerated, aided by Kenya's improved economic growth rate; faster customs clearance due to the introduction of computerization; and the completion of important projects at the port, notably the extension of the container terminal, made possible by the new franchise granted to KPA which allowed it to borrow money from local financial institutions.

Table 16: Mombasa Port: Local and Transit Cargo Throughout 2001–2005 (Metric Tons)

Year	Local	Transit	Others	Total	% Transit	% Local
2001	8 009 000	2 117 000	303 000	10 601 000	20	77
2002	8 009 000	2 215 000	340 000	10 565 000	21	76
2003	8 873 000	2 453 000	605 000	11 932 000	21	74
2004	9 621 000	2 891 000	409 000	12 922 000	22	74
2005	9 442 000	3 536 000	303 000	13 282 000	27	71

Source: Kenya Ports Authority

Railway transport

The port of Mombasa is linked to the hinterland by rail. The 1,300-km main Mombasa–Nairobi–Malaba–Kampala line was once operated by a single operator, the East African Railways Corporation (EARC). During the 1960s, railway transport was the principal means of transport for Kenya, Uganda, the Democratic Republic of the Congo, Burundi and Rwanda. Both the collapse of the EARC in the 1980s and the split of the railways into separate national companies triggered a downward spiral for the railways, characterized by inadequate inter-railway coordination, under investment and poor service.

In their efforts to revive railway transport services along the Northern Corridor, in 2006 the Governments of Kenya and Uganda granted a concession to a single operator, Rift Valley Railways (RVR), to manage the Mombasa–Kampala railway network for a period of 25 years. RVR is committed to making substantial investments of about US\$ 300 million in order to meet specified performance targets.

Road transport

Road transport has grown substantially from its subsidiary position as the provider of feeder services in the 1960s to become the main carrier of freight and passengers along the Northern Corridor. Available figures for transit trade indicate that by the late 1990s, the freight market was equally split between rail and road transport. However, by 2003, the share of road transport had jumped to 74 percent.

The dramatic growth of road transport is not attributed to the changing structure of trade in East Africa, but rather to the under performance of railway transport. Indeed, trade in the subregion, characterized by low-value, high-bulk export commodities, should augur well for railway transportation.

The technological advances that have led to the production of larger and faster heavy goods vehicles (HGVs) and the liberalization of road transport services have been major factors that contributed to the strengthening of the sector. Transport operators registered in any Northern Corridor country can operate freely along the corridor. This business environment has encouraged private sector investment, leading to the establishment of large companies, some of which own 300 or more trucks. Operators such as BAYUSUF, SDV Transani, Interfering, Mkuwano and Panalpina offer a wide range of vehicle options and combinations.

Transport service providers have powerful lobbies using professional bodies, which include the Kenya Transporters' Association (KTA), Uganda Commercial Truck Association (UCTA) and the Association des Transporteurs et Transitaires Rwandais (ATRAR).

The rapid expansion of road transport has increased the demand for road construction and maintenance. All countries along the Northern Corridor are committed to improving transit

roads, but their ability to do so largely depends on securing external assistance. In the case of Kenya, roads deteriorated badly during the 1990s, due to a lack of external funding. However, in April 2004, the World Bank finally approved the sum of US\$ 207 million to support the Northern Corridor Transport Improvement (NCTI) project, 80 percent of which is being spent on roads. The roads in Rwanda and Uganda are in good to fair condition, but substantial funds are required in the Democratic Republic of the Congo for the rehabilitation of its road network.

Governments are also addressing the issue of vehicle overloading with renewed vigour. In this regard, more weighbridges are being installed along the corridor, as well as modalities to ensure their effective use.

Another important development relates to the construction of bypass roads, which will enable transit traffic to avoid going through the centre of major cities. In this connection, work is underway in Nairobi and Kampala.

Air transport

Countries in East Africa accord great importance to air transport. All of them make considerable use of airfreight in terms of ton/kilometre. Each has at least one international airport which is used by international and/or regional carriers. The airports of Addis Ababa and Nairobi have established themselves as regional hubs. Kenya has three international airports: Nairobi's Jomo Kenyatta International Airport (JKIA), Mombasa Moi International Airport (MIA) and Eldoret International Airport.

In 2004, in order to maintain its status as a regional hub, Kenya, as part of its NCTI project, allocated US\$ 41 million to upgrade its aviation facilities. The main objective was to win "Category One" status from the US Federal Aviation Administration (FAA), which would allow direct flights between JKIA and US airports. To this end, the JKIA runway was extended and domestic flights were moved to the old Embakasi Airport.

Telecommunications

Fixed-line telephone systems in East Africa are small and inefficient. There are only three telephone landlines for every 1,000 people, compared with 11 for other developing countries.

Telecommunication services have been a target for privatisation in the subregion. Rwanda and Uganda have sold their fixed-line networks, while Burundi and Kenya are in the process of doing so. All the countries have opened up the mobile telephone services to the private sector, and the development of that market has been exponential.

The mobile telephone and the Internet are two technologies that have had a huge impact on transit transport. They have reduced the economic distance to the market by providing easy access to market information and facilitating business contact. In the absence of credible cargo tracking systems, mobile telephones enable transit operators to keep in touch with their drivers while in transit. The Kenyan, Ugandan and Tanzanian mobile phone companies launched a new service in February 2007 that would enable users in East Africa to travel with their network's Subscriber Identity Module (SIM) card and remain connected with their respective national networks.

Pipelines

Kenya has built a pipeline from a refinery in Mombasa to Eldoret and Kisumu, the main centres of economic activity in Nairobi. The pipeline currently meets 60 percent of the local demand for petroleum products. An extension of the pipeline to Kampala (Uganda) is under discussion with potential investors from the private sector. Transportation of petroleum products by pipeline is not only cost-effective, but also improves road safety by taking fuel transporters off the road network.

Energy provision

Electricity consumption in East Africa is growing rapidly, but generation that relies heavily on hydropower is struggling to keep pace. Affected by prolonged droughts that led to power shedding, all countries in East Africa are searching for alternative sources of energy (geothermal, gas, oil).

The energy sector has attracted considerable private sector participation and investment. The Kenya Electricity Generating Company (KenGen) is expanding geothermal power in partnership with the private sector. It buys oil-fired electricity from a private company, Aggreko. The Rwanda parastatal Electrogaz is managed by Lahmeyer of Germany. The State-owned Uganda Electricity Board was privatised and divided into three companies responsible for electricity generation, transmission and distribution.

Central Corridor

Dar es Salaam port

The port of Dar es Salaam is the warehouse of the Central Corridor. In addition to handling local exports and imports, it serves the transit trade of Burundi, the Democratic Republic of the Congo, Rwanda and Uganda (see the map in Figure 1 at the end of the chapter).

Table 17: The Central Corridor

From	Destination and distance (in km)		
	Bujumbura	Kigali	Kampala
Dar es Salaam	1 400	1 530	1 588

The Tanzania Harbours Authority (THA) operates the general cargo terminal. The container terminal has been leased to the Tanzania International Container Terminal Services (TICTS), a private operator. The port has eight deep water berths for general cargo and three berths for container vessels, as well as eight anchorages, a grain terminal, an oil jetty and offshore moorings for super tankers.

Until 1997, the port entrance was narrow and shallow, with many bends. It was accessible only to ships less than 192 metres in length, and only during the daytime. A US\$ 24 million project to widen, deepen and straighten the channel was completed in 1998. As a result, the width of the channel increased to 140 metres and the depth to 10.5 metres at chart datum, and the bends were straightened to allow access for vessels up to 234 metres in length. Navigational aids make 24-hour access possible, and since 2000, a growing number of larger vessels have included Dar es Salaam in their East African itineraries.¹¹³

Port throughput increased from 3.8 million tons in 2000 to 6.3 million tons in 2005. The share of transit cargo in 2005 decreased to 22 percent from its peak of 32 percent in 1995,

¹¹³ Brief on Dar es Salaam port, Tanzania Ports Authority, January 2006.

because of increased competition from other ports and the poor economic performance of the LLDCs that are served by the Dar es Salaam port (see Table 18).

Table 18: Dar es Salaam Port, Local and Transit Cargo, 2001–2005 (Metric Tons)

Year	Local	Transit	Others	Total	% Transit	% Local
2001	3 210 499	875 072	186 003	4 271 574	20.5	75.2
2002	3 405 452	844 216	274 840	4 524 508	18.7	75.3
2003	3 855 308	992 896	322 231	5 170 435	19.2	74.6
2004	4 155 398	1 409 019	489 602	6 054 019	23.3	68.6
2005	4 328 806	1 410 639	632 529	6 371 974	22.1	67.9

Source: Tanzania Ports Authority.

Railway transport

The Tanzania Railway Corporation (TRC) provides railway services for the Central Corridor. The 2,600-km main line links the port of Dar es Salaam with the inland lake ports of Kigoma and Mwanza, which in turn serve Burundi, the Democratic Republic of the Congo, Rwanda and Uganda. However, the railway is in poor condition and its carrying capacity has decreased to about 45 percent, because of lack of motive power and wagon availability. The Tanzanian press reported in 2006 that the TRC had been leased to an Indian firm, Rites Consortium. However, the report proved to be premature. As of March 2007, all necessary processes for the lease had not yet been fully finalized.

Road transport

The road from Dar es Salaam to Isaka and onwards to the border with Burundi and Rwanda is being paved as part of the United Republic of Tanzania's integrated road programme. When completed in 2007, it will be 270 km shorter than the alternative road from Mombasa to Kigali. The road also offers Burundi and Rwanda the convenience of a single border crossing.

Air transport

The United Republic of Tanzania has three international airports: Dar es Salaam, Kilimanjaro and Zanzibar. The country's ambition to become a regional hub faces intense competition from the better-established regional hubs of Nairobi and Addis Ababa. However, the country's liberal policies towards competition and fast-growing tourism have attracted a number of big airline carriers. Daily flight connections to regional airports from Dar es Salaam facilitate freight and passenger transport in East Africa.

Telecommunications

The telecommunications sector has attracted considerable private sector interest. The United Republic of Tanzania sold 35 percent of the Tanzania Telecommunications Company (TTCL) to a private operator, Celtel. Under private sector management, mobile telephony and the Internet have also spread to the countryside, where modern information and communication technology (ICT) is subject to rapidly increasing demand by the local population and continues to make substantial progress.

Southern Corridor

Dar es Salaam port

In addition to handling local cargo and transit trade destined for Burundi, the Democratic Republic of the Congo, Rwanda and Uganda, the port serves Malawi and Zambia. The Southern Corridor is linked to the port of Dar es Salaam by both rail and road. The Malawi Cargo Centre (MCC), a dedicated container depot close to the port, handles Malawi's transit trade.

Table 19: The Southern Corridor

From	Destination and distance (in km)	
Dar es Salaam	Lilongwe 2 100	Lusaka 2 400

Railways transport

The Tanzania Zambia Railway Authority (Tazara), a jointly owned Tanzanian–Zambian company, operates a 1,860-km Chinese-built track linking Dar es Salaam with Kapiri Mposhi in Zambia. The railway has a design capacity of 2.5 million tons, but currently achieves only 15 percent of its capacity, because of lack of motive power and wagon availability.

Malawi's transit trade is also carried by Tazara up to Mbeya. The MCC also has dedicated facilities in Mbeya to handle containers, general cargo and petroleum products. The MCC handles about 44 percent of Malawi's fuel imports.

Discussions are under way to restructure Tazara. The outright privatisation of Tazara and the formation of a joint venture between the private sector and government are among the options that have been recommended. A decision on this matter is expected to be slow, as it involves consensus building among three governments.

Road transport

The main road from the port of Dar es Salaam to Mbeya and onward to the border with Malawi and Zambia is paved. The road is in good condition, except for sporadic short patches, notably along the Iringa escarpment, which requires urgent repairs. The road in Malawi and Zambia is also paved, but sections of the road also require repairs and maintenance.

Inland water transport

Malawi-bound cargo from Mbeya has an option for road transport only or for combined road and inland water transport using Lake Malawi. However, the all-road option is preferred by many shippers, as it avoids additional delays associated with trans-shipment.

Air transport

Malawi has two international airports, namely Lilongwe and Chileka (near Blantyre). Foreign airlines operating from Malawi include Royal Dutch Air Lines (KLM), South African Airways (SAA) and British Airways (BA). Air Malawi operates on regional routes.

Zambia has four international airports: Lusaka, Livingstone, Ndola and Mfuwe. Zambia privatised its air services following the liquidation of its national airline, Zambia Airways, in 1994.

Pipelines

The 1,065-mile Tazama pipeline, jointly owned by Zambia (66.7 percent) and the United Republic of Tanzania (33.3 percent) since 1968, supplies Zambia with crude oil and finished products. The crude oil is refined by Indeni refinery in Ndola, Zambia, which the Zambian government and the French oil company Total own in equal shares. The design capacity is 1.1 million tons a year, but the actual output does not exceed 600,000 tons. The government

has approved a three-year US\$ 65 million rehabilitation programme to carry out urgent repairs and upgrades.

Telecommunications

The telecommunications markets in Malawi and Zambia follow trends manifested in other East African countries: the rapid expansion of the mobile phone and Internet sectors, and slow progress for fixed-line telephones. On both fronts, there is greater achievement in Zambia than in Malawi; this is because of Zambia's better economic development.

Energy provision

Malawi's electricity supply depends on hydroelectric generation. Four new hydroelectric stations were opened in 1989 on the Shire River, but drought and silting have severely curtailed output capacities. The country's strategy now focuses on linking the national grid to the Cabora Bassa power station in neighbouring Mozambique.

Zambia meets most of its electricity needs from its own hydroelectric station, and is a regional electric exporter. However, in November 2005, the country was forced to suspend exports as generation capacity fell. It is estimated that the rehabilitation work will cost US\$ 260 million. The Zambia electricity grid is linked to the Democratic Republic of the Congo to the north and Zimbabwe to the south. A proposed project to link Zambia with the United Republic of Tanzania will accomplish the long-standing objective of establishing a unified Southern African Development Community (SADC) electricity grid system.

B. Issues and Problems Affecting Development and Maintenance of Infrastructure

Low-income countries

East African countries are poor, with an average per capita GDP in 2004 of US\$ 300. They are ranked as low-income countries by the World Bank, and the United Nations classifies them (with the exception of Kenya) as least developed countries (LDCs). These countries depend heavily on external financial support for the development and maintenance of their transport infrastructure.

The decline of external financial assistance allocated to infrastructure development in the 1990s affected the ability of countries in East Africa to undertake major construction and maintenance work of transport infrastructure projects. The decline of official development assistance (ODA) for transport infrastructure development was not offset by private sector investment.¹¹⁴

Lack of regional project funding

Another problem affecting the development and maintenance of regional transport networks relates to aid receipts. Ideally, funds should be made available to regional networks or projects. However, in reality, aid is country-based. This enables aid recipient countries to maintain the sections of the regional network located in their territories, while infrastructure in non-aid-receiving countries deteriorates. Poor maintenance of infrastructure in one country along the corridor affects the others. For example, the deterioration of rail and road infrastructure in Kenya during the 1990s affected all countries using the port of Mombasa.

¹¹⁴ *The Least Developed Countries Report 2006*, UNCTAD/LDC/2006.

Permissible axle-loads and vehicle gross weights

Accelerated road damage is a major concern in East Africa. Axle-load and vehicle gross weight regulations have been approved by the Common Market for Eastern and Southern Africa (COMESA) and accepted by many countries, but regulations differ from those established by SADC. Talks are under way to harmonize the two regimes as an important step towards effective control of excessive gross vehicle weights and overloading.

Reports from governments indicate that the installation of weighbridges has produced positive results. Fixed weighbridges have been supported by the deployment of mobile weighbridges. At the same time, corrupt practices by control agents at the weighbridge stations are being fought through close administrative oversight and computerization.

Maintenance schedules and procedures

The construction of roads requires the outlay of large amounts of funds. Therefore, there is a need to protect all the improved roads in order to realize their useful lifespan. This requires enhanced maintenance profiles, improved road use and road wear surveillance mechanisms. In addition, governments have to establish dedicated road funds to collect revenue from road users. Box 4 shows how such road funds have performed in East Africa.¹¹⁵

Box 4: Creation of Road Funds for Road Maintenance in East Africa

The revenue collected by East African landlocked and transit country governments from road users is substantial, but not sufficient. Budgetary allocations and project funds from external sources are therefore still needed.

The establishment of dedicated road funds was intended to strengthen local resource mobilization and provide authorities responsible for the maintenance of infrastructure with a measure of flexibility in the planning and implementation of maintenance schedules. The Kenya Road Board (KRB), established in 1999, had (by March 2003) collected US\$ 279 million. The Tanzania Road Fund Board (also established in 1999) collected US\$ 213 million, while the Uganda Agency Formation Unit (RAFU) collected US\$ 59.2 million

Impact of weather on infrastructure

The region has experienced severe weather changes in recent years, characterized by spells of droughts, followed by heavy rains and flooding. The drought of 2005–2006 caused water in the great lakes to recede, disrupting port operations. The heavy rains that came later in 2006 washed away bridges, weakened rail embankments and destroyed entire road sections.

Governments appear to have been ill-prepared for dealing with such weather-induced damage. As this weather pattern may persist, they need to be better prepared in the future, in terms of formulating contingency plans and setting aside adequate resources to undertake emergency repairs and rehabilitation.

C. Government Policies and Programmes Designed to Improve Transit Transport Systems

Transit transport cooperation

East African countries have a long tradition of promoting transit transport cooperation. They belong to global, regional and subregional organizations such as the United Nations, the World Bank, the African Union, the East African Community (EAC), COMESA and the

¹¹⁵ Report of the EAC Roads Development Partners' Consultative Meeting held in Arusha, Tanzania (29–30 April 2003).

Northern Corridor Transit Transport Coordination Authority (TTCA). These organizations play an important role in promoting transit transport cooperation.

The following COMESA trade and transport facilitation instruments have many applications in the subregions:

- Single Goods Declaration Document, which is being replaced by the Road Customs Transit Document (RCTD);
- Customs Bond Guarantee Scheme;
- Third Party Motor Vehicle Insurance Scheme;
- Harmonized Vehicle Weights and Dimensions; and
- Harmonized Road Transit Charges.

The TTCA monitors the implementation of the COMESA trade and transport instruments along the Northern Corridor. It also advances other goals, such as the simplification of customs and administrative procedures and the harmonization of working hours at border posts, and promotes consensus on the priority projects for infrastructure development and maintenance.

The EAC has a strong mandate on trade and transport matters. It has made the construction and maintenance of roads a high priority. To this end, it has made significant progress in coordinating external support for the development of the East African Road Network.

The East African Community Road Network Project has both an East African and interregional connectivity objective. The Mombasa–Malaba–Katuna Corridor links not only Kenya and Uganda, but also the Democratic Republic of the Congo. The Mwanza–Musoma–Sirari–Lodwar–Lokichogio Corridor connects the United Republic of Tanzania and Kenya, as well as Sudan. The Tunduma–Iringa–Dodoma–Arusha–Namanga–Mayola Corridor links the United Republic of Tanzania, Kenya and Ethiopia.

Regional project funding

Countries in East Africa regard the Northern, Central and Southern Transport Corridors, as well as the additional corridors identified in the East African Community Road network, as regional projects. Development partners have rallied to support the development of these corridors, but funding is still largely country-based and inadequate.

While the total financial requirement for implementing the East African Road Network Project is US\$ 3,786,000,000, the World Bank confirmed, at the pledging Conference in Arusha in November 2003, the availability of US\$ 400 million to US\$500 million for the East Africa Road Network project for three years. Funds will be provided under the Partner States' National Road Sector Programmes. The European Union pledged €375 million over a five-year period, but the funds form part of the National Indicative Programmes of the eighth and ninth European Development Funds (EDFs) already agreed between the European Union and the three partner states. Moreover, only the African Development Bank indicated financial support for regional and cross-border projects.¹¹⁶

¹¹⁶ Ibid.

Public and private sector collaboration and investment

The provision of transport services in East Africa was once dominated by both state-owned companies and state protectionism. Today, transport services are not only in private hands, but also national borders have been opened to free and fair competition. National transit transport licences have been abolished. Instead, the transit transport market is regulated by the COMESA Transit Carrier Licence System. This liberalization of transport services has led to the demise of state-owned transport companies and the emergence of large, privately-owned companies with fleets of vehicles that provide a range of transport services, including flat-bed trucks for movement of containers, refrigerated trucks, warehouses and handling equipment.

Institutional reforms

Both the public and private sectors have undertaken institutional reforms deemed necessary for accomplishing their changing roles and responsibilities. Government departments, such as the ministries of transport, have established autonomous regulatory bodies and dedicated road funds designed to more effectively provide services to transport operators. The private sector, in turn, has established professional bodies, such as road transporters' associations, to provide platforms for representation and dialogue with governments. The national professional bodies are affiliated with regional and subregional bodies that represent and promote the interests of their members. These reforms help the public and private sectors cope with their newly acquired roles in society. They also promote an environment for closer public and private sector cooperation and collaboration.

III. The Way Forward

The rehabilitation, modernization and expansion of transport infrastructure are a fundamental prerequisite both for the development of the landlocked countries in West, Central and East Africa and for the economic integration and advancement of these three subregions.

The achievement of this objective necessitates the implementation of several policy actions, practical measures and technical regulations, including those described below.

A. Promoting peace and security

Several countries in these subregions have suffered from civil strife, particularly Côte d'Ivoire and the Democratic Republic of the Congo in recent times. In Côte d'Ivoire, the elected government has reached a political settlement with the northern rebels and has agreed to share power in the interest of peace and stability. The peaceful election in the Democratic Republic of the Congo in 2006 and the earlier successful peace initiative in Burundi have ushered in a new era of peace and security in the subregion. Those countries that were ravaged by civil wars have now turned their attention to economic development, while others such as Kenya, which were caught up in a decade-long economic slump, are back on track.

Political stability provides an enabling environment for rapid economic growth, which will in turn increase governments' revenues and their ability to undertake infrastructure development programmes, while encouraging more financial support from development partners, as well as private sector investment.

B. Capacity-building

There is a need to improve and expand human and institutional capacities that deal with the development, utilization and maintenance of transport infrastructure in both landlocked and transit countries. Despite the modest gains achieved in primary, secondary and tertiary education, there are wide gaps concerning the formation of professional skilled labour at both the managerial and operational levels. Thus, there is a need for better collaboration between the education sector and industry in order to make the necessary adjustments in school curricula aimed at satisfying the requirements of the business community.

The private sector needs to be involved to bring its capacity to bear in terms of expertise, finance and project management, as well as facilitate long-term private sector investment in transport infrastructure in partnership with donors and the private sector.

C. National and regional transport infrastructure strategies

Governments need to devise long-term transport infrastructure strategies that have short-term and medium-term objectives and built-in implementation mechanisms with aspects of regional cooperation and development included from the outset. Regional economic communities such as ECOWAS, UEMOA and CEMAC, SADC and COMESA need to better discharge their regional coordination and cooperation functions on the basis of the principle of subsidiarity, whereby regional economic communities do not take action unless it is more effective than action taken at national or local levels. Likewise, governments of member states of these bodies need to honour their commitments.

D. Balanced and complementary development of transport subsectors

The balanced and complementary development of road and railway transport subsectors, as well as the expansion and modernization of maritime ports, commensurate with the growth in demand for transport services, should be an integral part of national and regional transport infrastructure strategies. In particular, subsectors that have an enormous transport potential, but have been neglected for long periods, such as railways, need to be rehabilitated and expanded where it is economically appropriate (e.g. for regular long-distance transport of bulk commodities). Shifting a substantial part of transit transport services from roads to rail would also help reduce the excessive wear and tear of the existing road network caused by trucks that infringe axle load regulations.

E. Modernization of transport equipment

Governments need to enact and to enforce regulations on technical specifications of transport equipment with a view to enhancing transport regularity and transport reliability, as well as transport safety and transport efficiency. These measures need to be complemented by fiscal incentives that stimulate the renewal and the replacement of existing means of transport by more modern and more efficient transport equipment. Reductions of customs duties levied on new transport vehicles and spare parts could constitute incentives that stimulate the implementation of vehicle replacement policies. Moreover, the landlocked countries of the three subregions also need more specialized transport equipment, for example cold storage trucks, for the transport of perishable goods such as vegetables, fruit and meat. Finally, the modernization of mobile transport equipment needs to be complemented by building up a network of adequate service and maintenance facilities.

F. Involvement of the private sector in the provision and maintenance of transport infrastructure

Governments should adopt a more favourable attitude towards the participation of the private sector — both domestic and foreign — in the provision and the maintenance of transport infrastructure and allow investors to bring in their capital, entrepreneurial initiative, operational skills and know-how for those activities. Indeed, in many cases, governments, as part of their reform programmes, have outsourced some of the functions of regulatory bodies, dedicated road fund authorities as well as road maintenance, licensing and revenue collection to more efficient specialized autonomous bodies. However, if this objective is to be attained, the ministries of transport need to respect the autonomy of these subsidiary and regulatory bodies.

The provision and the maintenance of transport infrastructure by private companies do not necessarily imply private ownership of that infrastructure. Private sector involvement in the development and operation of transport infrastructure may take various forms, ranging from contracting services and management functions, to the privatisation of development rights, including the awarding of concessions and build-operate-transfer contracts, to partial and full divestiture.¹¹⁷

G. Strengthening institutional support systems

The private sector, which has established urban-based professional bodies, such as transporters' associations and associations of clearing and forwarding agents, should extend their membership beyond the big cities. They should provide their members with outreach services, for example business information and training opportunities (workshops and seminars).

H. Trade facilitation measures

Trade facilitation comprises a wide range of measures aimed at the simplification, harmonization and standardization of procedures affecting border-crossing goods, including customs, regulatory issues, insurance and banking aspects, and other measures that impact the transborder movement of goods. For landlocked countries, a main objective of trade facilitation is to increase the fluidity of goods in transit.

Both landlocked and transit countries in West, Central and East Africa should put particular emphasis on the simplification, harmonization and standardization of administrative and legal procedures related to customs, transit and port formalities at the regional level. The use of cargo information management systems can also facilitate and accelerate the physical movement of transit cargo. In addition, compromises on issues that hinder the strict implementation of agreed regional transit agreements, such as the West African Inter-State Road Transit Convention, would greatly facilitate the application of those agreements and hence facilitate transit transport.

I. Increased investment to improve transport infrastructure and related facilities

The three subregions have in place the basic transport and related infrastructure in terms of maritime and inland ports, railways, roads, inland water transport, air transport and pipelines. However, the services rendered must improve in order to satisfy current and future trade and transport requirements. The way forward calls for (a) improved project management by

¹¹⁷ For a more detailed discussion of private sector involvement in infrastructure development, see UNCTAD, *Comparative experiences with privatisation: Policy insights and lessons learned*. New York/Geneva, 1995, p. 137 ff.

governments in order to maximize the use of resources; (b) increased budgetary allocation for development and maintenance of infrastructure; (c) substantially increased ODA; and (d) the mobilization of private financing and management.

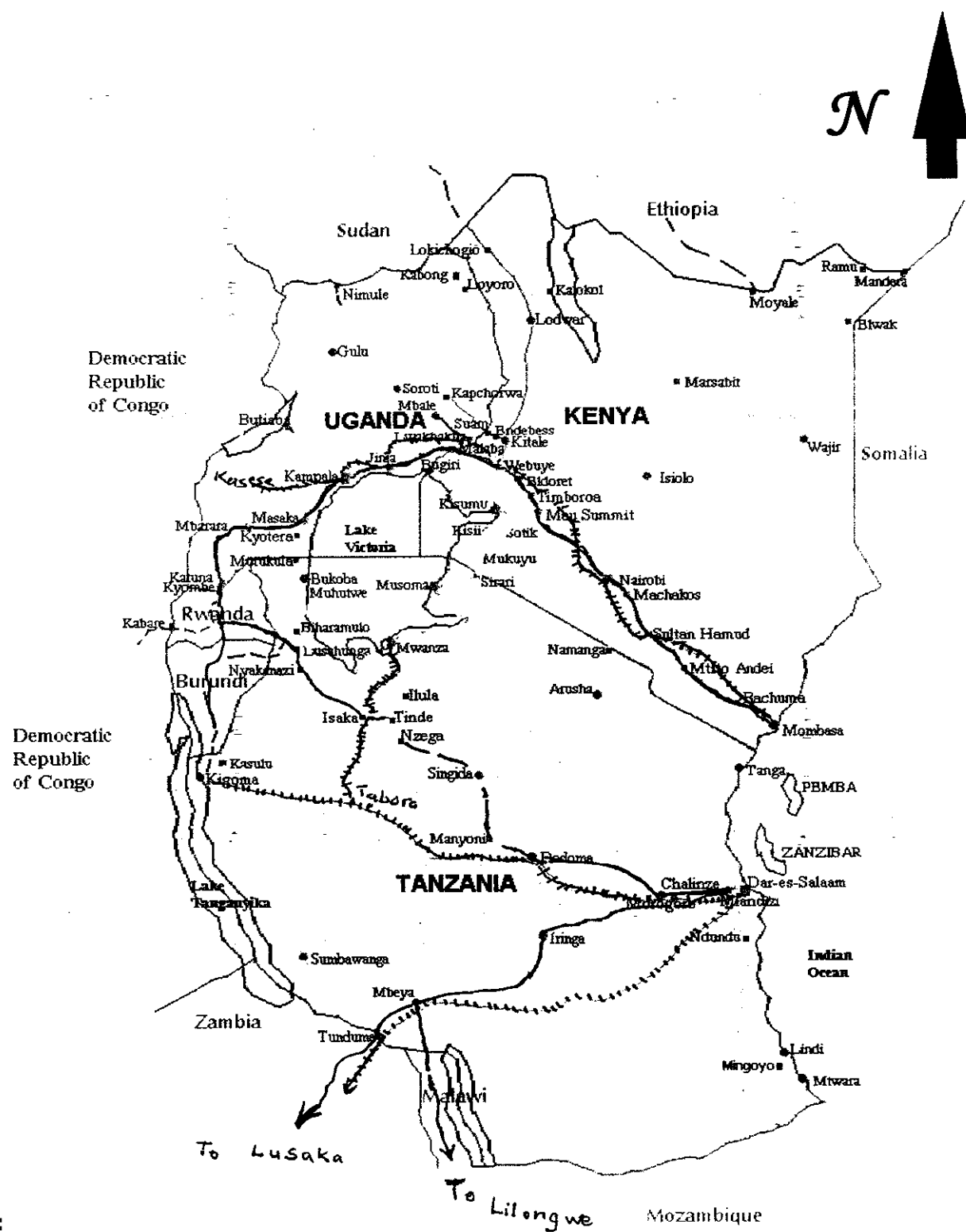
J. Improved intermodal coordination

East Africa has a chain of logistic facilities, namely ports, railways, roads and container depots, but intermodal coordination is weak. Now that the Uganda and Kenya railway networks have been leased to a single operator, opportunities have been created for greater intermodal coordination along the Northern Corridor. Faster and more reliable train services from the port of Mombasa to a container depot in Kampala would not only cut down the cost of transport, but also may well convince shipping lines to issue through bills of lading.




K. Effective implementation of regulatory frameworks

The introduction of regional instruments, such as common customs declaration documents, often results in difficulties in implementation. For example, serial numbering is important for customs control. However, computerization has been of great help in solving these and other problems. For East Africa, a future challenge is to implement both the COMESA Single Goods Declaration Document, which would replace the RCTD and the Customs Bond Guarantee Scheme.

Figure 1: Map of the Northern, Central and Southern Corridors in Eastern and Central Africa



KEY:

-  Paved roads
-  Unpaved roads
-  Railways

Chapter 4. The Landlocked Developing Countries Group in Geneva: Past, Present and Future Activities¹¹⁸

A group known as the Landlocked Developing Countries Group based in New York (NY Group) was created a few years ago under the auspices of the United Nations to advocate for the recognition of the problems of the LLDCs. Since its inception, the NY Group has made important contributions to raise global awareness of the marginalisation of LLDCs through the promotion of specific actions aimed at addressing their particular needs and problems.¹¹⁹

There is abundant evidence demonstrating the increasing linkages between trade, economic growth and the global welfare of people. In addition, the acknowledgement of the importance of building a predictable, transparent and fair trade environment through the establishment of a set of multilateral trade rules, prompted the NY Group to form a group of LLDCs on trade-related issues based in Geneva, Switzerland, following the launch of the Doha Round.¹²⁰ The newly formed group, the so-called “Geneva Group”, includes members who are the representatives of the LLDC member states at the WTO. The group’s primary objectives are to build a case for the LLDCs at the WTO and to promote its members’ interests within the various negotiating groups and other relevant forums.

This chapter discusses the past and present work of the Geneva Group. It also reflects on possible future activities of the Group to promote trade, trade facilitation and transit transport issues of interest to the LLDCs.

Category, formality and activities

In the context of the WTO, the LLDCs are neither recognized as a formal group, nor are they entitled to special and differential treatment, other than what has been accorded to them individually as developing or least developed countries. Therefore, the Geneva Group functions as an informal group of like-minded countries.

Despite these limitations, the LLDCs are not prevented from conducting relevant initiatives and pursuing their goals with the aim of obtaining advantages from the activities taking place under the regime of the WTO. As is true for many other informal WTO groups,¹²¹

¹¹⁸ This chapter was prepared by Estefania Laterza of the Mission of Paraguay in Geneva, July 2007.

¹¹⁹ The most significant event promoted by the New York Group was the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation, hosted by the Government of Kazakhstan, in Almaty, in March 2005. As a result of this Conference, the Almaty Programme of Action was adopted. This instrument has proved to be a good basis for a number of initiatives to address the situation of LLDCs, especially in the areas of transport, infrastructure and communications. The NY Group has also been involved in the preparation and implementation of an increasing number of projects and activities in the course of the last decade, namely the coordination of work with UNORLLHS and relevant organizations in different areas; the drafting and inclusion of specific provisions related to the development needs and particular problems faced by the LLDCs in relevant international instruments; and the promotion of contacts and talks among LLDCs, transit countries, donors and financing institutions.

¹²⁰ The most important trade-related event organized in recent years was the Meeting of Ministers of Landlocked Developing Countries Responsible for Trade, held in Asuncion, Paraguay in August 2005. The “Asuncion Platform for the Doha Development Round” was the first common platform of the LLDCs regarding ongoing WTO negotiations, including trade facilitation and other trade issues.

¹²¹ In the WTO there are a number of informal groups, operating in different negotiating areas, whose actions have an important impact on the overall work of the Organization. This is the case for the G-20, the NAMA 11, the Colorado Group and the Core Group, to name a few.

appropriate work conducted in an efficient manner by the LLDCs can accrue benefits to members.

With this understanding, the Geneva Group, chaired by the Delegation of Paraguay at the WTO, proceeded to engage other WTO members to adopt trade disciplines and decisions to deal with the special concerns and problems of LLDCs and to provide LLDCs with technical assistance.

In the early stages, due to the wide spectrum of negotiations and working areas in the WTO and the complexity of the WTO's agenda, issues and discussions, as well as the size and limitations of the LLDC missions in Geneva, it was impossible for the Geneva Group to realise successes in every area of interest to the LLDCs.

Therefore, the Geneva Group devoted most of its efforts to working in the four areas considered to be priorities for LLDCs: (i) the small vulnerable economies programme, (ii) trade facilitation negotiations, (iii) accessions, and (iv) analysis, discussions and event organization.

The small economies chapter

In the working sessions in which the Doha Declaration and the Doha Work Programme were prepared, the representatives of some LLDCs raised a number of trade-related challenges arising from lack of territorial access to the sea, remoteness and isolation from world markets, and the heavy dependence on transit countries. The LLDCs asked WTO members to reflect these issues in the texts which were being negotiated. Other groups with special needs, such as the Small Island Developing States (SIDS), also made a similar request.

These efforts led to the inclusion of paragraph 35 in the Doha Work Programme, which contains WTO members' agreement *"to a work programme, under the auspices of the General Council, to examine issues relating to the trade of small economies. The objective of this work is to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO Members. The General Council shall review the work programme and make recommendations for action to the Fifth Session of the Ministerial Conference"*.

Having taken note of this mandate, the General Council (GC) of the WTO, at its meeting of 1 March 2002, instructed the Committee on Trade and Development (CTD) to establish a programme of work on small economies, to be conducted in Dedicated Sessions.¹²² The GC also instructed the WTO Secretariat to provide relevant information and factual analysis on the constraints faced by small economies, as well as their shortfalls in institutional and administrative capacities, including the area of human resources and the effects of trade liberalization on small economies.

In order to help conduct the activities of the CTD work programme and to work on specific proposals consistent with paragraph 35, a group of countries who considered themselves small vulnerable economies (SVEs) started an informal group, the SVE Group. Paraguay and Bolivia, as LLDCs, participated actively in the SVE Group deliberations and worked right from the beginning of its sessions.

¹²² WT/447

From 2002, the SVE Group prepared and submitted a large number of papers to the CTD, as well as to other negotiating groups. The first communication on behalf of the SVEs was tabled in April 2002¹²³ by Barbados, Bolivia, Cuba, El Salvador, Fiji, Guatemala, Haiti, Honduras, Solomon Islands, Jamaica, Mauritius, Nicaragua, Papua New Guinea, Paraguay, Dominican Republic, Sri Lanka, and Trinidad and Tobago. This paper tackled issues related to trade and trade difficulties of small economies.

Although the tasks were carried out in the context of the SVE Group, they did not focus specifically on the concerns of the LLDCs. The lack of direct access to the sea was often mentioned as an indicator of vulnerability¹²⁴ and it was made clear that this disadvantage entitled countries with such a handicap to access to the SVE programme,¹²⁵ once adopted.

In September 2003, the 18 LLDC WTO members proposed to the Fifth WTO Ministerial Meeting to include a specific reference to the LLDCs in paragraph 18 on small economies of the Cancun Declaration project.¹²⁶ However, this instrument was never adopted and as a result there was no specific reference or mandate giving formal recognition to the trade weaknesses of LLDCs.

Some of the proposals tabled by the SVE Group between 2002 and 2004, particularly those contained in document WT/COMTD/SE/W/10,¹²⁷ could have helped mitigate the marginalization suffered by landlocked economies. Most of these proposals, however, were excluded after December 2005, when the SVEs started a process of refining and enhancing their body of proposals to table them in the WTO negotiating bodies, including agriculture, services and non-agricultural market access (NAMA).

Even if the adoption of some of the proposals of the SVEs could have had potential benefits for the LLDCs, the small economies programme of talks and other initiatives proved not to be the best vehicle for the LLDCs to raise their issues. There are several reasons why the LLDCs did not make progress with respect to the SVE Group.

Firstly, there is no general definition of the small economies. Therefore, this concept is likely to encompass a heterogeneous group of countries whose priorities, needs and interests are different.

Secondly, the SVE Group represents more small islands developing state (SIDS) members and small coastal countries' representatives than those of the LLDCs. This being the case, the

¹²³ WT/COMTD/SE/W/1

¹²⁴ Several references to landlocked countries can be found in the documents submitted by the small economies group, such as WT/COMTD/SE/W/1, par. 4, WT/COMTD/SE/W/4, par. 3 and WT/COMTD/SE/W/5.

¹²⁵ The communications of the SVEs submitted between 2003 and 2005 looked at ways of determining which countries would fall under the "small economies" concept. Over the years progress has been slow in this area mainly because members have failed to reach a consensus on what characteristics qualify a LLDC as a small economy. There has been resistance to the idea of forming a new sub category, especially when formation of sub groups is strictly banned by paragraph 35 of the Doha Work Programme. After the Sixth WTO Ministerial Conference was celebrated in Hong Kong in 2005, the SVEs focused on presenting agreement-specific proposals to relevant negotiating and other bodies. The group had also decided to drop the proposal of bringing the LLDCs under the wing of the SVE programme.

¹²⁶ JOB (03)/150/Rev.2

¹²⁷ Proposals submitted by the landlocked developing countries. Work Programme on Small Economies. Communication by Paraguay on behalf of the delegations of Bolivia, Mongolia and Paraguay

interests of the first two groups tend to prevail, which in most cases are not similar to those of the LLDCs and sometimes are even contradictory.¹²⁸

Thirdly, many SVE initiatives and proposals are strongly opposed by other WTO members who fear that the SVE Group could evolve into a new sub-category which will receive privileged treatment at their expense.

Consequently, Paraguay and Bolivia, who are the more active LLDC participants in the SVE Group, along with the rest of the Geneva Group, focused their attention on other priority LLDC issues such as trade facilitation, accession and event organisation.

The trade facilitation negotiations

The cost of moving goods across international borders is thought to be more important than tariffs in determining the overall cost of commercial transactions. Therefore, trade facilitation has received considerable attention from traders, governments and international organizations.

When modalities on trade facilitation were finally agreed in the WTO,¹²⁹ LLDCs saw a window of opportunity opened. The opportunities included reducing obstacles and constraints to trade, as well as decreasing the cost and time of commercial transactions.

Trade facilitation is relevant to all countries, but it is of even greater importance to LLDCs due to their high dependence on transit transport and access to seaports through the territories of neighbouring territories.

The Geneva Group's chair, together with Bolivia and Mongolia, represented the concerns of the LLDCs in the Trade Facilitation Negotiating Group (TFNG). The LLDC representatives drew members' attention to the special needs of LLDCs and presented constructive suggestions to deal with the constraints of LLDCs. These proposals, which are currently under negotiation, refer mainly to transit transport and SDT as follows:

¹²⁸ In our view, two reasons explain the poor participation of LLDCs in the SVE Group:

i. Most LLDC-WTO members are Least Developed Countries (LDCs) and, as a part of that WTO category, they are entitled to the most beneficial special and differential treatment (SD&T) available from this Organization. Since the SVEs' efforts are not likely to achieve a better S&DT than the one accorded to the LDCs and LLDC-LDCs, there are no incentives to encourage the participation of the LLDCs – LDCs members in the SVE deliberations and work.

ii. Most LLDCs-Developing countries feel that working in the context of regional groups such as the African group or other types of groups, could be more beneficial to their interests, than summing up effort to the SVEs cause.

i. Most LLDC-WTO members are Least Developed Countries (LDCs) and, as a part of that WTO category, they are entitled to special and differential treatment (SDT). Since the SVEs' efforts are not likely to achieve a better SDT than the one accorded to the LDCs and LLDC-LDCs, there are no incentives to encourage the participation of the LLDCs – LDCs members in the SVE deliberations.

ii. Most LLDCs-Developing countries believe that working in the context of regional groups such as the African group or other types of groups, could be more advantageous.

¹²⁹ Although trade facilitation was included among the so-called "Singapore issues" in the 1996 WTO Ministerial Conference, the modalities required for launching negotiations in this area did not reach consensus among members of the Organization until July 2004, when a Decision of the General Council, also known as the "July Package", set the rules to govern future trade facilitation negotiations. The Negotiating Group on Trade Facilitation started working in October 2004.

- i. Clarification of certain expressions contained in Articles V, VIII and X of the GATT, under negotiation, such as “traffic in transit” and “most convenient route” in a way consistent with the needs and specific problems of LLDCs;
- ii. Adoption of an ambitious set of provisions on trade facilitation whose compliance is compulsory for every WTO member. These provisions will be integrated in an agreement to be adopted together with the rest of the instruments resulting from the Doha Round;
- iii. Integration of a flexible SDT mechanism in the trade facilitation structure resulting from the current negotiations. This mechanism will allow developing and least developed countries to build the capacity needed to implement the agreed trade facilitation commitments whose compliance depends on strengthening institutional capacities. For this purpose, the SDT mechanism will have to integrate technical assistance and capacity building components. Donor countries and relevant organizations will play a major role in the provision of technical assistance and capacity building;¹³⁰ and
- iv. Inclusion of specific SDT rules, dealing with the particular concerns of the LLDCs, i.e., the obligation of transit country members to accord national treatment to landlocked countries.

LLDCs could greatly benefit from a positive outcome in the ongoing negotiations relating to trade facilitation.

Although some of the LLDCs have played an active role in the TFNG, the rest of the members of the Geneva Group could participate more to help raise the profile of the LLDCs in the WTO.¹³¹ Indeed, a number of LLDCs sponsored proposals submitted by Bolivia, Mongolia, Paraguay and other members of the Geneva Group. In addition, a series of TFNG meetings were convened with the aim of highlighting the importance of trade facilitation as a tool for improving trade conditions in landlocked countries and creating a multilateral set of rules favourable to LLDCs.

Accessions

From a total number of 30 LLDCs, eight¹³² are negotiating their accession to the WTO, while the other 22 are already members.

While the path leading to WTO membership is clear and straightforward, the accession process is long and burdensome, especially for vulnerable countries such as LLDCs whose institutional capacities are weak.

¹³⁰ Even though LLDCs are the parties most interested in quick implementation of trade facilitation commitments, especially by transit countries, the LLDC members must realise that most of the developing countries have weak institutional capacity to implement reforms. Therefore, the adoption of adequate provisions on technical assistance, capacity building and commitments from the donors and relevant international organizations to assist developing and least developed countries to improve their implementation capacities, remains an extremely important goal to be achieved in the context of the trade facilitation negotiations.

¹³¹ From the 22 members of the Geneva group, only Armenia, Bolivia, the Kyrgyz Republic, Rwanda, Moldova, Mongolia and Uganda sponsored proposals on transit or SDT in the TFNG.

¹³² Afghanistan, Azerbaijan, Bhutan, Ethiopia, Kazakhstan, Laos, Tajikistan and Uzbekistan.

In February 2005, the chair of the Geneva Group drew the members' attention to the number of LLDCs intending to join the WTO, alerting them to the additional difficulties of the accession process and proposing the idea of guiding and supporting acceding LLDCs throughout the process. The support provided consisted mainly of participating in the working parties dealing with LLDC applications,¹³³ presenting statements on behalf of the Geneva Group, advocating for the simplification of the accession procedures involving LLDCs and providing relevant information to the acceding LLDCs when required.

International events and thematic seminars

In the last three years, the Geneva Group has been focusing on the promotion and joint organization of international events and advocacy for LLDC positions as well as the introduction of international instruments, such as the Sao Paulo Consensus.¹³⁴

The Geneva Group has also recognised the importance of having a comprehensive information base as a tool to help conceive solutions to deal with the problems and challenges faced by LLDCs. In this regard, the Geneva Group, together with UNCTAD and the Agency for International Trade Information and Cooperation (AITIC), has planned a series of seminars to take place in 2007 on different subjects of interest, such as transit corridors, transit agreements, transit conventions, investment and supply management. These events will provide an opportunity for reflection, analysis, discussion and exchange of ideas.

Future prospects

The Geneva Group, since its inception, has been committed to building a strong case for the LLDCs, despite the group not being recognized as a "formal" group within the WTO. Indeed, the lack of formal recognition has neither impeded nor prevented it from conducting a number of initiatives consistent with its goals.

The work that has already been started by the Geneva Group in some of the fields described above should definitely be continued and improved. In the area of trade facilitation, it is important for LLDCs to adopt a common position and follow the evolution of ongoing negotiations in order to be ready to respond collectively to emerging challenges and opportunities.

As for the accessions, the support that is being provided to landlocked countries that are currently negotiating their accession to the WTO should be maintained and strengthened. Indeed, the larger the group becomes, the louder will its voice and negotiating power be.

Finally, it is strongly recommended that efforts devoted to organizing ministerial meetings, conferences, seminars, brainstorming exercises and other similar encounters be continued. These events help draw attention to the problems of LLDCs, bring concerted action to bear on addressing trade-related problems, and improve the performance of LLDCs in WTO negotiations.

¹³³ Any country or customs territory that has full autonomy in the conduct of its trade policies wishing to become a WTO member has to go through a process in order to join the organization. Its first stage consists of a review of the acceding countries' trade and economic policies. This task is carried on by a "working party" which is open to the participation of all WTO members.

¹³⁴ Outcome of UNCTAD XI.

The work done so far by the Geneva Group has proved to be relevant in several areas. However, the group has not covered in sufficient depth fields such as aid for trade, special and differential treatment, technical assistance and capacity building . Also, the group should continue to work with international organizations and donor countries whose contribution to the fulfilment of the group's goals could be significant.

As a final point, it is worth noting that since there is no mandate or special reference to the LLDCs in the WTO-instruments, the Geneva Group might want to consider promoting the adoption of a specific resolution or reference to their special needs. This opportunity could present itself during the preparation of a new round of negotiations or during a discussion of the July Package.

Chapter 5. Landlocked Countries: Opportunities, Challenges and Recommendations¹³⁵

Landlocked countries, i.e. countries without direct coastal access to the sea and thus also to maritime trade, face very specific challenges. Compared with their coastal neighbouring countries, they start their trading “career” with numerous disadvantages from the outset. The situation is almost always aggravated when being landlocked coincides with other factors, such as remoteness from major markets, tropical climates, considerable distance from the coast, poor infrastructure, or an inadequate policy, legal or institutional environment. In today’s competitive world, landlocked countries generally face a difficult situation.

Although the international community, including international organisations, banks, bilateral aid agencies, foundations and NGOs, has put much effort into development, the income gap between rich and poor countries, instead of decreasing, actually widened. Apart from a few landlocked countries in Europe, most are not wealthy. Many of the poorest nations in the world, including a large number of African countries, are landlocked and their plight requires urgent attention.

Adam Smith in his “The Wealth of Nations”¹³⁶ noted that, apart from having a free-market economy, location and access to the sea, and, therefore, to trade routes, played a significant role in a country’s economic performance. Over time, rail, land and air transport, as well as telecommunications and information technology, have reduced the advantages of coastal over landlocked countries. However, shipping still plays a central role in global trade and geographic location also remains significant.

Although being landlocked is a challenge, it is not destiny. There are practical solutions to many of the problems faced by landlocked countries - ranging across comprehensive approaches to transit corridors, overall regional integration efforts, legal and regulatory reforms, institutional and administrative overhauls, specific international protection mechanisms and including an in-depth analysis of each landlocked country’s foreign trade composition and **its adequacy with regard to transport constraints**.

Geographical factors are only one part of the whole story. Today, wide reaching multilateral and regional trade agreements (in economic regions, customs areas, free trade areas or developing trade regions) stipulate the steady lowering of tariffs. The international exchange of goods and services and the integration of production and distribution modes is more and more encouraged and it, therefore, becomes all the more important to improve the physical movement of goods, i.e. the actual transport within, across and through countries’ sovereign territories. It is no longer so much access to world markets that is a problem but actually getting the goods there without major delays and cost increases due to legal, administrative, customs or technical barriers. This is the real challenge for all countries, but even more so for landlocked countries and particularly for developing or remote landlocked countries.

This overview paper will attempt to describe briefly the most common and most severe challenges that landlocked countries face. In the initial sections, it will examine the transit

¹³⁵ This chapter is an updated version of a paper by the United Nations Economic Commission for Europe with the title “Landlocked Countries: Opportunities, Challenges and Recommendations” by Liliana Annovazzi-Jakab in UNECE, *Trade Facilitation: The Challenges for Growth and Development*, Geneva (2003).

¹³⁶ Smith, Adam. *An inquiry into the Nature and the causes of the Wealth of Nations*, Chicago, University Press, 1776 (1976).

issues and the legal and institutional framework and outline the role of government. It will also give examples and illustrate, by case studies, how certain countries or organisations have managed to overcome certain constraints. Special attention has been given to eastern and central Europe and more particularly to Hungary, to the central Asian transition economies and to the most successful landlocked country, Switzerland. The paper, it is hoped, will go beyond being purely descriptive and provide a background for discussion. For this purpose, a number of recommendations are set out in the concluding section of the paper.

Landlocked countries – challenged by geography

One of the most striking features of landlocked countries is their dual vulnerability; i.e. they are vulnerable on their own account and on account of being dependent on one or more transit countries. Not only are they deprived of access to the sea, but their neighbouring countries often have little interest in making the flow of goods across their borders easy for them. In fact, their neighbouring countries may additionally have economic or military incentives to block their access to the sea or transit through their territory.

Furthermore, coordinating infrastructure in one country is already a huge task: doing it across borders is even more difficult. No wonder then, that high transport costs, caused by whatever infrastructure deficiencies, delays, fees or procedures are encountered in the transit country, make the land leg of the shipping of goods to landlocked countries very costly and oblige the landlocked country to maintain high levels of inventory. For most landlocked countries, high transport costs remain the single most important obstacle to their equitable access to global markets and competition with other countries.

Transport costs – background

How transport costs are determined by a country's location can be seen from the following examples: The shipping cost for a standard container from Baltimore (United States) to the Ivory Coast amounts to around US\$ 3,000. Sending the same container to the landlocked Central African Republic will cost up to US\$ 13,000.¹³⁷ Even more extreme is the example of a standard container that is sent from Rotterdam in the Netherlands to Dar es Salaam in Tanzania over an air distance of 7,300 km for US\$ 1,400 and then transported to Kigali in Rwanda over a distance of 1,280 km by road for twice as much.¹³⁸

Infrastructure deficiencies

Thus, the closer a landlocked country is to the sea, the more it can profit from relatively cheap maritime transport costs. However, if a navigable inland waterway connects the landlocked country with the sea, isolation becomes already much less an issue. And if the necessary infrastructure, i.e. roads, railways, ports, is in place, geographical remoteness is further reduced. This, on the other hand, requires co-operation with the transit country. Thus, for example, in order to improve access of goods to and from Rwanda and Uganda, the Kenyan railroad system has to be improved. It also requires a coordinated approach to infrastructure development. An illustration of insufficiently coordinated infrastructure development was, for a long time, the Parana River basin in Paraguay. Only once an agreement was signed within Mercosur in the 1990s, which made the use of the inland waterway for barge transport easier, could some of the agricultural potential of landlocked Paraguay be exploited.

¹³⁷ Hausmann, Ricardo, *Prisoners of Geography* in "Foreign Policy" January 2001.

¹³⁸ Sachs Jeffrey D., Mellinger Andrew D., Gallup John L., *The Geography of Poverty and Wealth*, Center for International Development at Harvard University, in Scientific American Magazine, March 2001.

It is frequently not only the lack of adequate infrastructure that increases the costs for landlocked countries, but also capacity constraints, which can range from a lack of containerisation and inadequate handling facilities to obsolete railway rolling stock or ships and barges. This can result in missed opportunities for landlocked countries, as they and their transit partners are often not flexible enough to respond to a greater demand in goods due to, for instance, a crop failure in another part of the world. These capacity problems are often underestimated and it is often more difficult to find investment funds for new locomotives than for new streets.

The sluggish economic growth of landlocked Africa, which is far from markets and maritime trade and which is basically inaccessible by ocean navigable vessels, since its river system is full of impassable barriers, is rooted in many of the issues mentioned earlier. Thus in the West African Economic and Monetary Union (UEMOA), some of the most critical railway lines date back to colonial times and as early as the 1920s or 1950s. Their rehabilitation is critical to the landlocked countries in order to get their goods shipped to the ports. The East African Co-operation, an intergovernmental organisation between Kenya, Uganda and Tanzania claims that of the three countries' combined road network, 84 percent requires immediate attention, i.e. only 16 percent receives occasional upgrading or other maintenance work.¹³⁹ It is, however, also very encouraging to see that on the African continent there are three landlocked countries (Botswana, Lesotho and Swaziland), which are among the best sustainable growth performers.¹⁴⁰

The impact of borders

The mere fact of having to cross borders adds substantial portions to the total expenses and increases the amount of red tape for traders. A study found that simply crossing the border between the United States and Canada is equivalent to adding between 4,000 to 16,000 kilometres worth of transportation costs.¹⁴¹ If a border adds such significant costs in trade between highly developed countries, it is obvious that countries with weak commercial and customs infrastructure are faced with even more costly hurdles, including even cross-border conflicts. It is, therefore, imperative to find solutions in this area: to simplify customs procedures, to harmonise documents; to introduce and implement electronic document processing and to create the enabling institutional environment for progress in this area. Even in highly integrated economic areas with firm political commitments, such as the European Union, harmonising customs procedures and eventually abolishing internal borders took time. Prior to EU membership, Hungary had to implement the necessary reforms which include legislative measures, strengthening of administrative and operational capacities, IT system development and training, coordination of law enforcement and customs agencies and establishing agreements on the international level to improve customs cooperation. This short list is just an example of what a country has to do, even when that country, according to the 2001 Regular Report on Hungary's Progress Toward Accession, is "already quite advanced in this [custom union] area" in order to facilitate the movement of goods across national and international borders.¹⁴²

¹³⁹ East African Co-operation, Strategy for the Development of East African Infrastructures.

¹⁴⁰ Economic Commission for Africa, Economic Report on Africa 2000: Transforming Africa's Economies, Addis Ababa, 2001.

¹⁴¹ Hausmann, Ricardo, Prisoners of Geography in Foreign Policy January 2001.

¹⁴² Commission of the European Communities, 2001 Regular Report on Hungary's Progress towards Accession, Brussels 13 November 2001.

Proximity to markets

Also influencing the impact of landlockedness are such factors as closeness to markets and the composition of exports. There is a clear correlation between having the main markets “just across the border”, as in the case of the landlocked countries of Europe, and being able to reduce the impact of being landlocked, i.e. the impact of facing high transport costs. There is a further correlation between being landlocked and choosing to export high value and especially high value-added goods. In this case, transport costs account for a much smaller part of the end value and the fact of being landlocked becomes insignificant. This has been the case for Switzerland for centuries. In addition to other factors, such as favourable trade agreements and proximity to major markets, exporting high value-added goods was a very important reason why being landlocked did not matter for this country.

Influence on growth

Many economic growth strategies for developing countries have included strong elements of labour-intensive export manufacturing or assembly. This, however, often requires a large proportion of intermediate imports, which are sensitive to transportation costs and reduce the profit margin for landlocked countries. Transport costs, in this case, act as an implicit tax on export earnings. The higher the transport costs, the greater the blow to a government’s export-led strategy. It is, therefore, realistic to assume that geographically isolated countries such as Mongolia, Rwanda, Burundi or Bolivia will have severe difficulties replicating a model of rapid growth, based on the export of labour-intensive manufactures. For certain production processes, such as in electronics, apparel or other assembly-type operations, which require high import content and have small per unit profit margins, high shipping costs can even eliminate remote landlocked countries from international competition. With the exception of those landlocked countries that are close to their markets and within easy reach, due to highly interconnected transport networks, such as in Europe, e.g. in Hungary, developing comparative advantages in the high-tech industries appears difficult. However, information technology does offer huge opportunities to landlocked countries in the export of IT-based services such as software development, data transcription, or telemarketing. This needs certain technical prerequisites but nonetheless opens new doors for countries to overcome the disadvantage of distance.

The access of landlocked countries to markets, their ability to trade, i.e. move exports and imports efficiently and economically, is the key to maintaining consumption levels and fostering economic growth. Trade is also important in terms of the economic adjustment of developing landlocked countries, which are often searching for means to counterbalance deterioration of terms of trade, civil unrest or natural disasters. Costly and unreliable transport depresses trade and in addition to the above-mentioned, is often a result of a transit problem.

The transit issue

In addition to these challenges, another barrier faced by landlocked countries is that they have to transit through another country, i.e. a sovereign entity of international law with its own economic, political, military and transport agenda. The trade competitiveness of landlocked countries is further reduced by “transit charges”, over which they do not have direct control, such as port charges, road tolls, forwarding fees, customs duties or transport quota restrictions on traffic from the landlocked country to the coastal neighbour that may be set out in bilateral or multilateral agreements with the transit country or countries.

The Legal Side: Introduction

There are many documents of public and private international law, which guarantee access rights to landlocked states. Such documents include the United Nations Convention on the Law of the Sea, of 1982, which entered into force in 1994 and which, in its part X, grants right of access of landlocked countries to and from the sea and the freedom of transit. There are also the 1965 United Nations Convention on the Transit Trade of Landlocked Countries; the General Agreement on Tariffs and Trade (in its Article V); the 1973 Kyoto International Convention on the Simplification and Harmonisation of Customs Procedures; the Customs Convention on the International Transport of Goods Under Cover of TIR Carnets (TIR Convention) of 1975; the Convention on the Contract for the International Carriage of Goods by Road of 1956; or the International Convention on the Harmonisation of Frontier Controls of Goods of 1982. Transit rights were also included in much older documents, such as in the 1921 League of Nations Convention and Statute on Freedom of Transit; the 1923 League of Nations Convention and Statute on the International Regime of Maritime Ports; the 1921 League of Nations Declaration Recognising the Right to a Flag of States Having no Seacoast; or one of the oldest transit documents i.e. the Revised Convention on Navigation on the Rhine of 1868.

Multilateral instruments have also been developed by regional organisations, including ASEAN–Association of Southeast Asian Nations (Framework Agreement of Goods in Transit of 1998), Mercosur–Common Market of the South (the Mercosur Treaty as well as, for example, the subsequent Agreement on International Road Transport within Mercosur, the Agreement on the Basic Unified Regulations for Transit; or the Agreement on Mercosur which introduces Multimodal Transport Facilitation). In West Africa, the TRIE (Transport Routier Inter-Etats) was ratified in 1982 but is so far not operational. ECOWAS–Economic Community of West African States–adopted the Convention relating to Inter-States Roads Transit of Goods, SADC–the Southern African Development Community, the Protocol on Transport, Communications and Meteorology (1996) and the Agreement on one-stop border posts. COMESA, the Common Market for Eastern and Southern Africa has a very ambitious integration agenda, which also includes the establishment of a regional customs transit system and already has a functioning COMESA carrier license. The COMESA/SADC Customs Document still faces many obstacles in its implementation, as does the Regional Customs Bond Guarantee (RCBG) system in East and Southern Africa. In the same region, an agreement on harmonised axle load limits has been adopted. And the European Union (with the exception of Austria) has moved to a fully liberalised road transport market.

Transit agreements

Many transit agreements are negotiated on a bilateral basis (such as Nepal’s agreements with Bangladesh or India) and are in most cases for a limited period of time. Many of them are ad hoc and others only comprise some paragraphs in a larger treaty, typically dealing with all kinds of trade issues. This can lead to uncertainty, which is especially harmful to business interests. Customers may become wary over signing long-term export contracts and foreign companies might reconsider locating their facilities to a landlocked country if the transit issue remains unclear. Although, in the end, economic considerations will determine which transit route is most used, formally signed transit agreements create fewer transit problems for the countries that have them than for those without. All formal or informal transit agreements will, however, depend on the political goodwill of the participating countries.

Landlocked countries may depend on one or several transit countries, or may have several options to access ports via road, inland waterways or railway. Transit corridors are often described in great detail, especially in bilateral transit agreements. This offers little if no

Box 5: Transit – A Short Definition

Transit is a certain concession system aimed at facilitating trade within a given customs territory or between separate customs territories. It essentially allows the temporary suspension of customs duties or other taxes payable on goods originating from and/or destined for a third country while under transport across the territory of a defined customs area. This suspension of duties and taxes remains in place until the goods either exit the customs territory concerned, are transferred to an alternative customs regime or the duties and taxes are paid and the goods enter free circulation. For example, goods imported by a retailer in Vienna originating in Japan might enter the EU at Hamburg, from where they would be transported by road to Vienna. If placed under a transit regime, duties and taxes are not payable in Hamburg but in Vienna where the goods are placed on the market. En route between the two, the goods remain duty-free and must not enter free circulation.

In transit regimes, it is necessary for identifiable persons to be responsible for the suspended taxes, duty and excise during the transit. Such a figure exists in all regimes and frequently has to provide customs with a guarantee to back up the financial liability involved. In practice, a number of different systems exist to allow such transit operations to take place. They can vary depending on the territories involved in the transport.

Excerpt from: European Parliament-Committee of Inquiry into the Community Transit System, Report on the Community Transit System, Strasbourg, 20 February 1997)

flexibility for landlocked countries. Such detailed descriptions can deal with: points of entry, points of exit, land routes, service charges to the transit country, duty-free space, warehouses or free zones (open or covered space) in ports at the transshipping point, often even specifying the lease agreements and rent charges and customs representation in the free zone to control and inspect the trade flow and deal with administrative tasks required by the transit country.

It is also common to include references to the transport of hazardous cargo and the rules to be observed in such cases, import/export procedures detailing required custom transit documents, required insurance policies or bank guarantees. Certain agreements might also set permit quotas, environmental restrictions and levies or road charges. Even in Europe, road transport services were subject traditionally to bilateral intergovernmental agreements, on the basis of which the governments agreed annually on road transit permit quotas for both freight and passenger road transport. Progressive liberalisation started in the 1980s with the introduction of Community quotas and has resulted in a nearly full liberalisation.

There might also be a number of special customs regimes, which involve the bonded transport of duty-free goods. Examples include inward/outward processing regimes, where goods can be imported to be processed and re-exported, or warehousing regimes, where goods can be stored in bonded warehouses, pending the decision on their final destination.

This is by no means an exhaustive list of legal issues, but it gives a sound notion of how complicated the situation can be for landlocked countries. In most cases, the issue is complicated further by infrastructure deficiencies, maintenance problems, lengthy customs procedures, inefficiencies in the handling of goods at terminals and interactions between the various agencies involved in the transit operation. Inadequate port management can make delays in ports longer than the actual sea trip of the goods. It should, however, be noted that

in many cases, the transit countries are, just as the landlocked countries, developing economies themselves, with the same weaknesses in their infrastructure, institutional, administrative and regulatory frameworks.

Box 6: The TIR Convention

The TIR Convention, which is currently used by more than 32,000 transport companies in over 50 countries in Europe, central Asia and the Middle East, allows road transport operators to cross borders in international and transit traffic without involving major procedures and costs. The TIR system can be used at present for transport from Norway to the Islamic Republic of Iran (North-South direction) and from Kazakhstan to Portugal (East-West direction). Thousands of lorries in Europe carry the familiar blue and white TIR plate and indicate that they are using the TIR customs transit procedure (more than 2.3 million TIR operations are carried out per year).

Traditionally, when goods are in transit or are transported from one country to another, customs authorities apply national controls and procedures to cover duties and taxes at risk, i.e. to avoid the goods being sold on the black market without payment of customs duties, sales taxes and/or value-added tax upon their importation or transit. These measures vary from country to country but usually involve at each border crossing the opening of the load compartment of the lorry, inspection of the cargo, imposition of security (guarantee, bond, etc.), the filling-in and processing of national customs and transport documents, etc. The application of the TIR Convention provides for an internationally recognised and accepted customs transit regime with an internationally standardised and secured customs document (TIR Carnet), an international guarantee cover in case of irregularities as well as harmonised customs procedures limited, in most cases, to a standard visual external control of the sealed load compartment of the lorry and processing of the TIR Carnet. Thus, customs authorities can reduce their manpower to a few administrative controls while transport operators and traders can make use of inexpensive, fast and secure border crossing procedures, often with special channels reserved for TIR operations only.

The TIR customs transit system is supervised by an intergovernmental machinery, the TIR Executive Board (TIRExB) and its TIR secretariat which is located in the UNECE headquarters in Geneva (Transport Division). More than 32,000 authorised transport companies are registered at present with the TIRExB and its TIR secretariat, which also ensures the regular exchange of information and intelligence among participating customs authorities to avoid misuse of the TIR system by smugglers and organised crime.

Source: UNECE Transport Division

Security

Apart from the weaknesses of transport and infrastructure systems, security remains an important issue. Transit routes can be closed (such clauses are, by the way, rather common in transit agreements), due to security risks or political differences, leaving the landlocked country with little other option but to develop alternative routes. Thus, due to border conflicts between landlocked Ethiopia and Eritrea, Ethiopia's access to the sea was interrupted and it had to fall back on an alternative port outlet for its foreign trade. In addition, this often leads to too much traffic on one road and an under utilisation of another route, for which the transit country has also paid and which could have been an efficient alternative.

The transit country's perspective

It is thus not only the landlocked country that pays the bill. Transit countries have to do maintenance work too. They have to invest in new infrastructure, cope with environmental costs and are supposed to have efficient logistics and customs operations readily at hand. Therefore, transit is a costly venture for both the landlocked countries and the transit countries.

Transit – focus on corridors, integration

Transits are undertaken the most easily and at the lowest costs, for both landlocked and transit countries, in an integrated environment. If goods can move freely and unhampered by administrative or customs delays, if investment decisions are taken in a common perspective, the well-being of landlocked and transit countries is increased and costs are lowered. Improvements in transport and transit facilities and an increased traffic volume will eventually benefit coastal as well as landlocked countries. Once this has been recognised, it may well encourage and foster collaboration between the two partners.

Many countries and regions are, today, in the process of building or planning transit or access corridors. Such initiatives have been taken more or less successfully by landlocked and transit countries on all continents, ranging from pan-European to Bi-Oceanic Corridors in South America, to the revival of the ancient Silk Road in Central Asia. Countries are planning their “feeder” corridors, as for example Bolivia, which is planning four major corridors to avoid becoming a stopover country once the Bi-Oceanic corridors have been built. Over the past years, more and more integrated projects have emerged in many countries and most of them are based on two distinct, but related approaches. They are led by, or are created within, the framework of a regional integration project (as happened in Europe with the EU and its Trans-European Transport Corridor). Or, they are rooted in the establishment of a development corridor that, apart from facilitating transport, encourages social and economic development and the alleviation of rural poverty in the area it crosses.

Both approaches have in common a pooling of human, technical and capital resources to achieve economies of scale and to develop regional or subregional co-operation. This plays a substantial role in guaranteeing sustainability.

Development corridors

Establishing a corridor can be a great opportunity for both the landlocked and the transit country. It can be the expression of a commitment to improve trade within a region or sub-region and to improve access for the whole region’s goods to world markets. A prosperous region or sub-region will guarantee higher growth potential to all its countries.

A rather good example of the development corridor strategy is the approach taken by the Spatial Development Initiatives (SDIs) programme, launched during the 1990s by the governments of Mozambique and South Africa, and, specifically, the case of the Maputo corridor. The Maputo corridor links the South African industrial heartland of Gauteng and the Mozambican port of Maputo. It is a development initiative along the toll road and its feeder roads and there, it creates jobs and benefits communities on both sides of the border. The establishment of this development corridor is seen as a test case for regional integration and was met with scepticism, but also a lot of optimism. Having as a goal that all parties should experience benefits from the corridor, it is a joint management of economic resources by African states. It confirms the trend towards regional integration, with the real glue being cross-border physical integration. In addition, the Maputo corridor is also an example of a public-private partnership initiative (Build-Operate-Transfer, BOT), which was able to mobilise the large potential of a regional economy and private capital, as opposed to attracting finance for narrow infrastructure projects on the national scale only.

Regional approaches

Transport corridors maximally enhance profitable interregional cooperation, another example being the Transport Corridor Europe Caucasus Asia, TRACECA. This EU initiated

programme was launched in 1993, to develop a transport corridor on a west-east axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. A very interesting approach taken in the development of the corridor was to attempt, in the first phase, to establish a common legislative base in the transport and transit sector. The rationale for such an approach was the lack of a single legislative framework in the participating states' structures, which made a coordinated approach to the concept of international freight traffic difficult, if not impossible. It was agreed that laws should be systematically harmonised and amended to meet international principles and new laws adopted to regulate international freight traffic. Another interesting side of the TRACECA project is its spill over effect on other countries. It stimulated, in fact, the signing of bilateral treaties with e.g. Romania, a Danube country, and raised interest in the Republic of Korea, China, Italy, Poland and Estonia to explore the construction of possible rail corridors.

Marketing a transit corridor

Each transit corridor requires an extensive marketing strategy to attract capital and transit traffic. Landlocked countries should realise that they could play a role in a sub-region and use this strategic location. In the case of Zambia, for example, it was only after independence that the country realised that it could take advantage of its strategic location in the subregion and included such considerations in the planning and negotiation of corridors. Landlocked countries can take an active role in proposing and working on transit corridor planning. On the other hand, a transit or coastal country can use its potential to attract investment and customers and increase its own and the region's growth potential. A corridor systematically creates spill over effects, which provide opportunities for a whole region.

Funding – the donor approach

Setting up a corridor as a commercial venture requires more than just a marketing strategy. It requires substantial funds on the one hand and an institutional or governmental commitment on the other. These two aspects have wide-ranging consequences. Finding funds is not an easy task. Traditionally, funds from the World Bank, the EBRD, bilateral or other multilateral donor agencies have been channelled into infrastructure development. For various reasons, not all funded projects proved to be successful or contained the right approach. This, together with other factors, resulted, during recent years, in increasingly fewer resources being allocated readily to infrastructure projects. Albeit with certain exceptions, developing landlocked countries had to renew their call for funds and had to bring their plight on to the agenda of international organisations. Thus, in July/August 2001, at their fifth meeting, the United Nations Governmental Experts from Landlocked and Transit Developing Countries and representatives of donor countries and financial and development institutions renewed their call for financial and technical assistance.¹⁴³

Funding – public-private co-operation

That funds can also be raised from the private sector is illustrated by the earlier described Maputo corridor project or by Namibia's Walvis Bay corridor. Independent Namibia, in the 1990s, was economically weak, had a limited market potential, was isolated from its neighbours and had no relevant eastern and northern links. However, the country had a large potential to serve as a gateway for its landlocked neighbours. In a public-private partnership and pursuant to the SADC protocol on Transport, Communication and Meteorology, which recommends both corridor development and corridor management institutions, it was decided to develop the Walvis Bay corridor, an extensive network of integrated transport and

¹⁴³ TD/B/48/10, 23 August 2001.

facilitation services. The pooling of private resources and expertise to run the project, i.e. the transport operators in co-operation with the public authorities and governmental institutions (as the transport regulators) has resulted in a partnership, which benefits Namibia and the surrounding landlocked countries. The one issue that deserves particular attention in this case, is the simultaneous development of infrastructure, institutional and regulatory reform and private sector management and marketing. This was done to address and solve deficiencies and shortcomings, such as the lack of intermodal operations, border and customs procedures and transport regulations.

Box 7: Advantages for a Coastal Country- the Example of Togo

The Togolese economy is organised around its main port in Lomé. Most of Togo's foreign trade passes through this port, which also serves as a transit point for goods for the land-locked countries of the Sahel such as Burkina Faso, Mali and Niger. Exploitation of this position has encouraged the installation of communication networks linking the port to the landlocked countries and, at the same time, the opening up of Togo to the outside world. The structure of the import duties, by encouraging the transit and importation of certain goods for which there is a strong demand in the subregion, has also helped to ensure the preponderance of the services sector within the Togolese economy. The social and political crisis that Togo experienced at the beginning of the 1990s impaired the dynamism of this sector, which the government is currently trying to restore. However, the State continues to have a strong presence in the sector through its wholly owned enterprises.

Togo's government report submitted for the WTO Trade Policy Review also stressed that one of Togo's general trade policy objectives included "...intensifying and improving transit trade..." and noted that "further liberalisation of maritime transport was envisaged; freight distribution has been eliminated in order to allow economic operators to choose their means of transport freely, and port fees have been considerably simplified; [it was envisaged to] strengthen, improve and facilitate transit trade through the Togo corridor with a view to reinforcing Togo's external competitiveness. To that end, the government plans to create a dry port at Blitta to make it easier to transport goods towards the interior of the country and hinterland countries.

Excerpted from WTO Trade Policy Reviews: First press release, "Secretariat and Government Summaries: Togo", January 1999.

To private operators, the key concerns are not only the total costs, but also transit time and reliability of service. Successful transit corridors are the result of joint efforts by public and private operators, as well as all other government agencies. Transit can be described as a chain, which includes all the physical, organisational and administrative operations needed to move goods from their place of origin to their final destination. This chain covers the actual transport and also documentation, customs, insurance and all other handling procedures. Therefore, aspects which deserve particular attention are: closely knit co-operation and coordination between the public and private sectors, willingness to implement necessary reforms to reduce delays and administrative hurdles, construction of roads, railway links and port facilities, their efficient management, marketing and long-term maintenance and the repositioning of a transit and landlocked country to a more commercial and business-like approach to transport, trade and infrastructure problems. There is definitely something to be gained from opening up, from developing a port or a transit corridor.

In Europe too, ports, especially medium-sized ports, have experienced substantial growth and are coping with demand from coastal as well as landlocked countries and regions. This trend shows that size is not the most critical factor. Well-functioning and efficient port facilities

provide economies of scale in all sectors, including the service sector, which huge ports have difficulties competing with.

Transit - analysis of alternatives

In any transit agreement between landlocked and transit countries, corridors require careful analysis. They can entail not only general or informal costs, but also require shorter or longer transit times. When a transit agreement is negotiated, the position of the landlocked and the transit country does not necessarily have to be opposed. On the one hand, transit traffic uses a transit country's infrastructure and it appears normal for the transit country to include incurred costs in road user charges, port tariffs, etc. On the other hand, the landlocked country is not entirely without bargaining power. Its traffic is a source of revenue for the transit country and much needed to make existing facilities profitable. Therefore, often, transit countries very much want to have good agreements to attract traffic. Most governments of landlocked countries feel that negotiating at least two access routes is imperative in order to avoid becoming "captive"; however, it should be noted that private operators would always use the cheapest and most profitable route and ignore possible alternatives.

Therefore, what are the basic criteria that allow transit corridors to be compared, evaluated and chosen? Several factors play an important role. They deserve close attention and in certain cases, even mention in formal transit agreements, especially when transit routes through different countries are compared. Such factors include trade facilitation means, i.e. procedures and documents required for import/export and customs (are these procedures harmonised? do they comply with trade agreements? is IT available and used? are international conventions such as TIR applicable?); infrastructure concerns (in what states are the roads, railways, waterways, storage facilities, terminals, ports; what capacities are available; is there adequate maintenance), operational and traffic constraints (loading time; waiting time; delays at ports or custom border crossings; traffic through the corridors; who operates the corridor; restrictions on transport operators), charges and costs (including direct and formal costs; insurance or possible informal charges, etc.) or institutional arrangements (do transport sector regulations and organisation exist? are the private and public sectors involved? do traffic sharing arrangements exist; have transport regulations on e.g. axle-load, dimensions or insurance been unified?).

It also helps to include a review mechanism, which allows both the transit and the landlocked country the monitoring of the stipulated points of the agreement.

Facilitating transit – other measures

Transport or development corridors are efficient but also comprehensive, long-term projects and therefore, more time-consuming approaches to the transit issue. Harmonising, simplifying and standardising transit procedures and documentation are other necessary and accompanying measures that require equal attention if transit traffic is to be improved. Efficient information processing and transfer systems contribute to the facilitation of customs transit procedures. Such measures have to be adopted and if already in place, have to be implemented. They make the life of both landlocked and transit country much easier and facilitate the task of public and private operators. Furthermore, antiquated and inefficient transit procedures make the whole transit regime vulnerable to fraud and misuse.

Harmonised documents and procedures

Trade facilitation procedures have been developed on the national, regional and international levels. They range from common customs declaration documents, to the electronic

transmission of data ahead of the arrival of cargo at the transshipping point, to sophisticated computer programmes. Information technology, intermodal transport or other new trends can certainly contribute in an important way to the improvement of transit traffic and the reduction of transport costs for landlocked countries. Simplified systems, which improve the co-operation of customs and authorities in transit and landlocked countries or within one region, are key to reducing transport time and costs.

There are numerous examples of such simplified systems, such as the EU's Single Administrative Document. Not surprisingly, most technical assistance programmes include a reference to the introduction of such simplified procedures. Another example is the Baltic Common Transit Procedure, which so far covers road transport only and came into force in January 2001. It simplifies transit through the three Baltic states by introducing a single customs declaration and guarantee. The Baltic countries see this Agreement as a step towards the Convention on Common Transit, which applies to the transit of goods from/through the EU, EFTA (European Free Trade Agreement) and the Visegrad countries. The Convention on Common Transit and especially the reforms introduced in July 2001, are an excellent example of legislative changes closely intertwined with operational reforms. The aim of this approach is to improve the legal environment for transit operations on the one hand, especially with regard to avoiding fraud and on the other, to link more closely the 22 customs administrations of the parties to the Convention. In Africa too, the need for a common customs document, for example, within COMESA (Common Market of Eastern and Southern Africa), has been recognised. The Subregional Transport Forum of the Greater Mekong Subregion has also taken first steps towards the recognition of simplified procedures.

The co-operation between the public and the private sector is fundamental for trade facilitation measures to succeed. The business community has hands-on experience and can therefore give concrete input. Their cooperation (which can be revenue-based, as is the case, for example, in Singapore and Mauritius) is therefore not only helpful, but also necessary, to progress further in this area.

Information technology

Another important element, which draws on the aforementioned, is the use of information technology (IT). Certainly a costly venture, however, it is an efficient and necessary investment for both transit and landlocked country. Paper-backed transit systems cause delays that are endemic. The EU had relied for a long time on such a procedure and only in recent years has it introduced an IT based documentary exchange in the transit area. It had admitted that the paper-based regime which, in addition, had been designed for fewer member states, could simply no longer cope with today's transit traffic. The sheer volume of paper created every single day exceeded the capacities of the customs services by far and resulted in serious delays in the treatment of transit operations, in administrative errors and had adverse financial impacts.

In this respect, it is worth noting that several national and international organisations are involved in assisting countries in their trade facilitation efforts and the automation of procedures. One example of such an initiative is the Trade and Transport Facilitation in Southeast Europe Project (TTFSE) of the World Bank, SECI (Southeast European Cooperative Initiative) and the US (and in collaboration with the EU). This project aims at reducing costs to trade and transport and at the same time reducing smuggling and corruption at border crossings in the region. The project provides: physical improvements to border crossings and technical assistance to strengthen the customs administrations, computerisation

of procedures at the border crossings, and improved exchange of information between the border control agencies and the business community, through seminars, training and Internet websites. Membership in the TTFSE Programme is based on being a recipient of funding for customs reform, under a loan from the World Bank or a credit from the World Bank's IDA (International Development Agency) and signing a joint Memorandum of Understanding (MoU). By signing the MoU, the participants commit to joining the Regional Steering Committee of the TTFSE and to collaborating in the resolution of common problems constraining trade in the region. The MoU includes a direct reference to the improvement of transit and cross border problems.

Other examples include UNCTAD's ASYCUDA and ACIS systems. Within the framework of COMESA and SADC (Southern African Development Community), new programmes aim at the consolidation and extension of computerised customs procedures and transport information systems and the setting up of joint border posts.

Box 8: ASYCUDA - Automated System for Customs Data

ASYCUDA is a computerised customs management system that covers most foreign trade procedures. It handles manifests and customs declarations, accounting procedures, transit and suspense procedures. ASYCUDA generates trade data that can be used for statistical economic analysis. The ASYCUDA software is developed in Geneva by UNCTAD. It operates on microcomputers in a client server environment under UNIX and DOS operating systems and RDBMS Software, and takes into account international codes and standards developed by ISO, WCO and the UN. ASYCUDA can be configured to suit the national characteristics of individual customs regimes, National Tariff, legislation, etc. ASYCUDA provides for Electronic Data Interchange (EDI) between traders and customs using UN/EDIFACT (United Nations Electronic Data Interchange for Administration, Commerce and Transport) rules.

ACIS (Advance Cargo Information System) is a logistics information system designed to improve transport efficiency by tracking equipment and cargo on transport modes (rail, road, lake/river) and at interfaces (ports, Internal Clearance Depots (ICDs)) and providing information in advance of cargo arrival. It allows traders to make full use of the existing infrastructure and equipment capacity.

Source: UNCTAD

Fundamental legal aspects

A stable legal environment is the basis for any transaction, between businesses, private and public entities in landlocked and transit states. We have mentioned the more specific issues relating to transit agreements; however, in many cases, it is not so much the lack of agreements that hamper the free flow of goods, as the lack of implementation and enforcement. Thus, although many bilateral and multilateral agreements contain references and commitments to resolving transit issues, customs facilitation or regulatory problems, there are often simply not enough resources at hand to tackle the challenges in practice. In many countries, however, the most basic legal and regulatory framework either does not exist or is inefficient. Thus, in many cases, railway codes, civil aviation or inland water shipping acts, maritime or merchant shipping acts, road traffic acts, transport codes, customs legislation, freight forwarding laws and legislation on the transport of dangerous goods, require enactment, revisions and/or harmonisation with internationally agreed standards. As mentioned earlier, the EU, within the framework of developing transport corridors within the central Asian and Caucasus region, has put a lot of emphasis on legal and regulatory reform. The previous system, inherited from the former Soviet Union, was a very unique transport

system, which could not be adapted to the principles of a free market economy and to international transport operations. Therefore, draft laws that were strongly customised to the needs of the particular countries were proposed to the participating states and draft multilateral agreements were brought to their attention.

Legal reforms – opening markets

Infrastructure development and the development of a strong private sector that is competitive and will, therefore, add to the reduction of transport costs for landlocked countries, depends strongly on the business environment. Policies and legislation that are conducive to the development of the transport or forwarding sector, or the involvement of the private sector in infrastructure development, touches primary legislation included in civil codes or laws. Reforms in this area, which would range from liability to deregulatory issues, are far-reaching and require strong commitment from the relevant government. Since in many landlocked and transit countries the poor development of infrastructure and services is a lingering threat to trade expansion, legal reform to create a good and open business platform is a good start and can be a catalyst for small and large scale investments.

Often rather radical changes are necessary and it takes courage for governments to adopt and implement them. Breaking up monopolies, privatising national railroads, letting private companies take over port operations, enacting and applying concession laws or opening national transport markets to foreign companies are examples of such steps. Countries, therefore, sometimes ask for safeguards. Hungary, for example, asked for such exceptions with regard to the required adoption of the *acquis communautaire* for accession to the EU. Letting freight operators into its national transport market, the government fears, could potentially harm the small-scale operators currently in the market. Another area that could be addressed profitably is a legal framework that allows for the establishment of public-private partnerships.

Institutional reforms

The lack of adequate institutions is another problem that requires more attention. Without appropriate institutions within the government and the relevant ministries, the specific legal issues related to transport and transit risk being delayed, lack the necessary lobby and will fail to be implemented and enforced even if they are adopted. This is also the case for the implementation and enforcement of international conventions or agreements, which are much better supervised if responsibilities are clear and their implementation and coding into national legislation, through the relevant normative acts, is driven by a designated agency. Furthermore, investments in infrastructure may not reduce transport costs if not reinforced by appropriate policy and institutional reforms. There is a two-way interaction between trade and institutions, in that better institutions foster trade and more openness to trade results in the establishment of a better institutional framework.

In a study on growth strategies,¹⁴⁴ a very interesting link between having functioning institutions and overcoming the disadvantages of being landlocked was analysed using the example of Botswana. Between 1965 and 1998, the country's average per capita income grew by 7.7 percent annually despite its being landlocked and the 1999 Economic Report on

¹⁴⁴ Rodrik Dani, Institutions, integration and Geography: in Search of the Deep Determinants of Economic Growth, John F. Kennedy School of Government, Harvard University, August 2001.

Africa,¹⁴⁵ by the Economic Commission for Africa, ranked Botswana among the countries that satisfy the minimum requirements to sustain growth. Over the same period of time, order was maintained, the administration functioned well, large public investments were made in the education, health and infrastructure sector and institutional arrangements protected the property rights of investors. The reasons for the well functioning institutions in Botswana are manifold and are rooted in tradition, colonial legacy, and a strong leadership with foresight. These conditions are not necessarily easy to reproduce. However, they show that these unorthodox elements, western policy advice and native approaches are a good mix for successful institutional build-up and sustainable development, even in a landlocked country.

There is also a need to not only organise inter-governmental commissions but often also the whole transport/freight forwarding sectors. Federations and associations are helpful partners when it comes to implement agreements and rules as well as when co-operation between neighbouring countries has to be fostered. In many countries, transport and freight handling companies are fully or partly State-owned and require restructuring and more private-sector involvement. In other countries, informal or semi-informal sectors have developed in the transport profession and freight is often shipped without adequate insurance or in vehicles that do not respect safety requirements. In the West African Economic and Monetary Union Region, the flouting of cargo weight limits by trucks is considered one of the greatest contributory factors to the fast deterioration of the road network.

In all these areas, government intervention is certainly necessary to foster better control and regulation, taking care, however, not to drive out the most effective service providers.

Regional approach – harmonising laws

The most desirable approach to the transit issue is certainly an integrated regional approach that addresses all issues involved, looks for possible solutions and supports improvements in all countries through which the goods, also from landlocked countries, pass. Therefore, inter-country agreements are an important prerequisite as they cover access to and maintenance of transit corridors and potentially streamline and harmonise regulations. Cross-border co-operation between agencies is an efficient means to implement and enforce harmonised regulations, such as among customs administrations in a region or sub-region. Such co-operation can even include transport operators so that transit procedures are more closely followed and monitored, as is demonstrated by the example of the Transit Contact Group, under the umbrella of the European Convention on Common Transit. However, one important factor should not be forgotten: the best transit agreement can only work if backed by political will and the capacity of governments to actually control their agencies.

A further, rather strong incentive for regional coordination is also rooted in a fundamental legal issue. Goods that cross borders for the purpose of being exported, or just in transit, are also moving from one legal system to another. In many border areas, distribution and transit centres have been built, not because they have a particular economic relevance in the logistics process, but simply because they mark the furthest point a truck can legally travel and where new legal conditions have to be complied with. Borders are the natural limit of the validity of legal documents, such as bills of lading or insurance policies. Legal systems on the two sides of the border can so diverge that they create a “legal wall”. That can hinder the smooth transit of goods. Especially if legal tradition and historical or socioeconomic legacies have different

¹⁴⁵ Economic Commission for Africa, Economic Report on Africa 2000: Transforming Africa’s Economies, Addis Ababa, 2001.

roots and have taken different directions, the nature of these legal systems can be incompatible. Regional approaches are, therefore, the only logical way to tackle these problems.

The role of governments

Governments should play the role of a facilitator and interfere only when necessary. Transit agreements between governments, however, are still necessary, as they provide a much needed stability and specify more than one or two access routes to the sea, a condition that despite commercial considerations might become a necessary option at one point. Governments should create an enabling environment that allows private operators to choose the cheapest and economically most viable transit route. In their role as facilitators and trade and transit enablers, governments should examine their own actions and help overcome bottlenecks linked to procedural, regulatory or customs questions. Governments are the driving forces when it comes to privatising, liberalising and creating a conducive and competitive environment. They are also responsible for adopting the necessary accompanying measures to buffer possible unexpected effects and prepare the ground for new developments.

Therefore, details in transit agreements, for example, can be left to private operators and in many instances, governments could consider retreating from commercial operations. This will narrow their role in certain areas but, at the same time, strengthen their involvement in others, for example, in finding resources for infrastructure projects, in formulating, implementing and enforcing transport regulations, international, regional, subregional or bilateral agreements, in negotiating simplifications and harmonisations and in reforming their agencies.

The following sections of this paper show concrete examples of how countries in eastern and central Europe, central Asia and in western Europe are coping with being landlocked, how their governments have decided to tackle the issue over the years, including during their economic and political transition process and which policies and concrete steps have been adopted to facilitate transit and their countries' access to the sea.

Country cases

What influence does the landlocked status have on the transition process in the countries in eastern and central Europe and central Asia? What other factors have to be taken into account when this assumption is being tested and what can be done when being landlocked is a problem for the transition process?

The geographical location of the 25 transition economies differs sharply; however 13 (Armenia, Azerbaijan, Belarus, Czech Republic, Hungary, Kazakhstan, Kyrgyzstan, the FYR of Macedonia, Moldova, Slovakia, Tajikistan, Turkmenistan and Uzbekistan) of the 25 transition economies are landlocked. It is also interesting to note that, whereas 15 of the transition economies are over 1,000 km away from the major markets of Western Europe, Hungary, the Czech Republic and Slovakia lie in the very heart of Europe and are, therefore, easily accessible for trade in goods and services.

The geographical location of the transition economies will of course also affect trade and investment and related decisions. The years since the beginning of the transition process have shown that certain countries have been more successful in both spreading economic and institutional reform and in attracting investment and trade flows. Two factors are striking: these more successful countries are either coastal economies or/and close to their major

markets. Therefore, being landlocked seems to matter only if a country is, at the same time, far or disconnected from its major markets. Otherwise, it can be assumed that the closer a country, landlocked or coastal, is to Western Europe, the earlier the reform process has started and the farthest it has progressed in the meantime.

One of the major growth strategies adopted by Eastern Europe, for various reasons, is export-oriented growth with a large portion of assembly operations or outward processing trade. In these activities, transport costs play a substantial role for potential investors and as intermediate products are being imported and finished products exported to western Europe, the choice of the production location will favour countries such as Poland, Hungary, Slovakia or the Czech Republic, as these are physically closer to major markets and have a more open trading policy. Manufacturing will also most often be located close to where the final consumption of the product will take place, as long as labour costs or transport costs are not too different.

Local sourcing too will become important in order to replace costly imports and avoid high transport costs. Thus, for instance, a Singapore-based electronic engineering giant uses up to 50 percent of local supplies in its manufacturing plant in Hungary.¹⁴⁶ However, it can be assumed that, once labour costs become adapted and the difference in labour costs becomes more important than gains from physical closeness (i.e. transport costs), production will move further east. Already, the big multinationals in the electronics industry are looking for facilities in Romania or Ukraine.¹⁴⁷

These examples show that being landlocked can be a burden also for a potential investor, but the problems linked to being landlocked can be overcome. In Hungary, Slovakia and the Czech Republic, being landlocked matters relatively little, since these countries are contiguous to western Europe and are linked to western Europe and the sea through good roads, railways and navigable waterways over relatively short distances. When the transition process started, they were included in the planning of the major pan-European traffic arteries. Accession to the EU has forced these countries not only to invest large sums into the upgrading of their infrastructure and capacities, but also to overhaul their transport policy, institutional frameworks and customs administrations. Closeness to the EU definitely increases the reform process and provides an interesting incentive for speedy reform.

Landlocked in the heart of Europe: the case of Hungary

Hungary, a landlocked country, is located in the middle of rich markets and close to the country's primary and most important trading partners. Hungary is certainly one of the best examples for why being landlocked is neither a real obstacle to the transition process nor to trade expansion or economic well-being. The keys to overcoming its landlocked status are both given, i.e. geographical proximity to western Europe, its location astride main land routes between western Europe and the Balkans, as well as Ukraine and the Mediterranean basin, the absence of topographical barriers, navigable waterways, i.e. the Danube and the Tisza rivers, and negotiated, i.e. trade, agreements or bilateral and multilateral transit conventions.

¹⁴⁶ Source: Wilson Drew, In depth: Eye on Hungary, in EBN, 30 January 2001.

¹⁴⁷ Source: Ibid.

Access to the sea – rail and road

Hungary can access the sea via inland waterways, rail and road, with roads being the most important, followed somewhat closely by rail and inland waterway traffic being by far the least important.¹⁴⁸ The Hungarian railways system has been improved in recent years. Today, there are regular container trains to the seaports, for example, in Hamburg, Bremerhaven, Rotterdam, Croatia, Turkey and Greece. Trains from Budapest take no more than 1.5 days to reach the two German ports that have become very important for Hungarian container trade to destinations overseas (including the United Kingdom and Ireland). The opening of a new railway line between Slovenia and Hungary, in May 2001, made the establishment of regular container trains between Budapest and the Port of Koper in the Adriatic Sea possible. In a November 2001 study, Hungary's railway network ranked 5th among 16 European countries.¹⁴⁹ However, neither the rolling stock nor the basic infrastructure meets the latest technical and economic requirements. Maintenance of existing networks requires urgent attention and administrative reforms, especially needed is the restructuring of the Hungarian Railways Company, MAV.

Box 9: Statistical Overview

Data for 2000 indicate that Hungary's main trading partners are in Europe (with 90.2 percent of exports and 77.4 percent of imports) with the largest share in the EU (75.2 percent export share of Hungary's external trade and 58.5 percent import share) and the most important trading partner being Germany. Russia and the CIS are still relevant sources of imports, especially as providers of energy. Trade with countries overseas was relatively small with Africa (0.4 percent of total exports and imports), Australia and Oceania (0.1 percent of both exports and imports) and the Americas (6.0 percent of Hungary's exports and 5.4 percent of Hungary's imports). Active trade relations have been established with Asia, which holds an import share of 16.75 and an export share of 3.4 percent.

Source: Ministry of Economic Affairs and Ministry of Foreign Affairs, Hungary, 2001.

The development of new roads and continued efforts to maintain the already existing road system within Hungary will further strengthen its access to sea outlets. The legislative framework, which regulates Hungary's transit and access to the sea, is codified in bilateral inter-governmental agreements, which often also regulate road freight quotas through a system of permits. A particular and inherent failure of such a system is, of course, the possible and actually often quite real shortage of permits and therefore, a limitation in transit traffic through certain countries. Therefore, in July 2000, Hungary and the EU signed the bilateral Road Goods Transit Agreement, which aims at facilitating transit across the territory of the contracting parties, particularly through the mutual exchange of road transit authorisations. These authorisations are in addition to those already exchanged within the framework of bilateral agreements between EU member states and Hungary. The issue of transit permits opens a rather sensitive chapter in both Hungary's and the EU member states' transport policies, as only a real reciprocal liberalisation would actually bring substantive changes. Accession to the EU will introduce new rules that will require more competition and change considerably the road transport sector and admission thereto.

¹⁴⁸ Source: Commission of the European Communities, Energy and Transport in Figures: Goods Transport, other European Countries, Performance by Mode in 1998, Brussels, 2001.

¹⁴⁹ Source: Healey and Baker, European Distribution Report 2001.

In addition, Hungary is also a party to several multilateral agreements including the TIR Convention. Customs transit procedures are regulated by the (EU) Convention on Common Transit of 1987 (amended in July 2001), to which Hungary is a party and which is broadly in line with the provisions of (EU) Community Transit. It has similar rules, the same documentation and procedures and similar guarantee arrangements. The Common Transit regime is not compulsory and the TIR system can be used as an alternative. Hungary also has bilateral agreements on transit and related subjects with other countries, including those that are important for the country's access to the sea. Customs co-operation is also included in the Free Trade Agreements concluded within the framework of CEFTA (Bulgaria, Czech Republic, Poland, Romania, Slovakia and Slovenia), as well as with Croatia and others.

Transit

Hungary is also an important transit country; four of the ten trans-European Network corridors run through Hungary and this gives the country a significant role in European as well as sub-regional integration. In recent years, though, the excessive use made of roads for the transport of goods and the shortcomings in the rail system have seen a sharp increase in congestion on main arteries and border crossings. It is in the common interest of the transit and the transiting country that there be a good infrastructure and an equilibrium between traffic volume, traffic mode and environmental harm.

But Hungary is not only faced with the negative sides of transit. Hungary has, in fact, already started to exploit the benefits that are linked to transit and to the country's unique situation between East and West. These benefits are linked to the vast opportunities in service sector development, i.e. of providing services and solutions, especially in the logistics sector. They range from providing adequate services to transport operators or freight forwarders to services, such as increased capacities in storage, distribution, warehousing and container handling. Providing flexible and high-level services will attract business, investment and expertise and will create employment. The underlying assumption is a rather forward looking strategy, in that it builds on the dynamic expansion of markets also eastwards and Hungary's location between eastern and western Europe. In fact, Hungary has the profile, experience and historical background, which could eventually turn the country into a major trading and distribution hub, despite its being landlocked.

The Danube – Hungary's natural connection to the sea

Legal background

Since 1992, Hungary has been connected to both the Black Sea and the North Sea. It was then that the 170 km connection between the Rhine and Danube rivers, the Rhine-Main-Danube Canal, was inaugurated and established a navigable waterway of 3,500 km across Europe. The Danube had always been a very important link for Hungary's access to world markets and trade. The Paris Peace Treaty of 1856, which ended the Crimean War, recognised the principle of free navigation on the Danube River. The Paris Convention of 1921 regulated navigation on the Danube from Ulm to the Danube's mouth and established an International Commission (with, today, 11 member states¹⁵⁰) with authority over the Danube from Ulm to Braila. Since 1948, the Belgrade Convention on the Navigation of the Danube is in force. In its articles 1 and 25, the Belgrade Convention states that the "Danube is free and open for the nationals, merchant vessels and goods of all states, on a footing of

¹⁵⁰ Today, the members of the Danube Commission include 11 countries (Bulgaria, Germany, Serbia, Croatia, Moldova, Austria, Romania, Russia, Slovakia, Ukraine and Hungary). Decisions of the Commission are only recommendations and not legally binding for the member states.

equality in regard to port and navigation dues and conditions for merchant shipping except for traffic between ports of one and the same riparian State”. The Convention also defines, in detail, maintenance commitments and the development of navigational channels as well as the defraying of relevant costs.

Apart from this multilateral Convention, Hungary has also signed two bilateral agreements, one with Germany (1989) and the other with the Netherlands (1991), just prior to the opening of the Rhine-Main-Danube canal in 1992. They cover the reciprocal use of inland waterways by vessels for the carriage of goods and passengers and for transit and the equal participation of these countries in their respective bilateral trade. Ships of these countries are guaranteed the same treatment while on the territory of the other contracting party.

In 1955, the Danube shipping companies signed the “Bratislava Agreements” on the international carriage of goods by inland waterways. These rules, elaborated by the transport companies themselves, are a private law document that deals with the general conditions for international transport of goods on the Danube and includes paragraphs on tariffication and emergency measures. Another agreement was adopted in 1984 on the carriage of high-cube containers. A particularity of the Bratislava Agreements and also the Agreement on Uniform International Tariffs is that they stipulate that bilateral trade should be reserved for national shipping companies of the two countries concerned. This led to the development of a strong tradition of cargo-sharing arrangements. Following the opening of the Rhine-Main-Danube Canal and the opening of East Europe, coordination of the regulations on the carriage of goods on Europe’s inland waterways became necessary. In June 2001, the Budapest Convention (elaborated with the collaboration of the UNECE) on the contract for the carriage of goods by inland waterway (CMNI), came into force. This document will not only harmonise different legal regulations but also make inland waterway transport more competitive.

Box 10: Trade on the Danube- Past and Present Developments

For Hungary, traffic on the Danube has gone through many phases. Thus, during the Comecon years, the Danube was an important trade link between Hungary and its eastern neighbours with the most important part of the waterway being its eastern end, i.e. towards the Black Sea. In 1984, the 64-km Danube-Black Sea canal opened and shortened the route to the sea by 370 km, which meant a more direct and navigable, though by no means cheap, link. Access to the Black Sea provided also a trade route to the Far Eastern countries of Vietnam, China and India. The role of the Danube was reinforced by the nature of Hungary’s trade with the then Soviet Union (e.g. ores and coal) and the fact that means of transport and tariffs were negotiated on ministerial levels in advance.

With the end of the Comecon in 1992, trade relations with EU countries intensified, trade moved westward and the important access points to the sea became Amsterdam, Rotterdam (with regular liner service to the UK and the shipping of even small amounts without delays), Antwerp and the German seaports, by road and to some extent by rail towards Trieste (Italy), Koper (Slovenia) and Rijeka (Croatia). Trade towards the Black Sea ports decreased during the 1990s and was even more damaged by the consequences of the war in the former Yugoslavia.

Traffic on the Danube- potential and reality

Waterways, in general, hold a great potential that yet remain to be fully utilised. Today, most goods from overseas arrive in containers but, unfortunately, container traffic on the Danube has only reached a very small portion of such traffic on the Rhine. Although the Rhine-Main-Danube Canal provides Hungary with a new access to the sea via cheap and environmentally

friendly waterways, a ship has still to pass 65 locks on its way. This is no problem for bulk transport but nevertheless prevents the establishment of regular liner traffic between Hungary and the North Sea ports. The Rhine-Main-Danube canal, as any other canal, sets limits with regard to the dimensions of a ship and allows only limited traffic, a problem operators on the Rhine do not have. Furthermore, carriers on the Rhine-Main-Danube waterway pass from one legal and regulatory regime to another and face a number of legal, technical and administrative problems. The Danube Commission and the Rhine Commission have agreed formally to cooperate more closely to harmonise their respective regulations. Furthermore, there are also some more specific “Hungarian” problems that require attention. These include capacity problems, i.e. container vessels and ships not always up to the latest technical standards; a lack of ports along the Danube; inadequate port infrastructure; low water depth on the Danube above Budapest and logistical problems in general.

The sea ports – access to the sea

In the light of increased overseas container traffic and the eastward expansion of the EU, there are once again arguments for developing the Budapest-Constanța (Romania) waterway to the Black Sea. The new free port of Constanța is being developed and at one point it might be possible to link Port Said at the Suez Canal with Constanța and Budapest (with ocean and then river vessels). Another competitive link would be the Port Said - Gioia Tauro (Italy) - Koper (Slovenia) - Budapest route with ocean vessels, feeder ships and trains.

The Adriatic ports already, today, play an important role for Hungary and due to their proximity, this importance could increase even more in the future. Governmental agreements and the CEFTA framework is today principally responsible for the good transit conditions and the relatively easy access to the Adriatic ports of Croatia and Slovenia. Hungarian export companies and the sheer volume of Hungarian exports have already transformed northern Croatian ports like Rijeka or the Slovenian port of Koper (the biggest Hungarian cargo handling outlet on the Adriatic coast) into huge export sites. In fact, Asia can be reached in 7 to 10 days, less from Koper than from any of the large Atlantic ports. For the landlocked countries of Central Europe, including Hungary, the port of Koper is about 500 km closer than any of the North Sea ports. In Rijeka, Hungarians have taken a lead role in encouraging the revitalisation of the port, whose facilities required urgent modernisation. The EU accession of Slovenia at the same time as Hungary increased landlocked Hungary’s access to major sea ports and removed any remaining customs or technical barriers.

Management and policy issues

As in many transition economies, the privatisation of operating, freight forwarding and handling firms, shipping companies and port authorities remains an issue to be tackled. In many of these companies the state is either the sole or the majority shareholder. These state-owned companies often have outdated fleets and an inflated administrative structure. The CEO of the Hungarian national shipping company MAHART Rt., which is still 100 percent state-owned and whose privatisation has been postponed for many years, estimated in May 2001 that, in order to become profitable, efficient and internationally competitive, the number of river ships would have to be cut from the current 35 to about 5; and the administrative staff would need a reduction from over 200 to not more than 3 or 4.¹⁵¹ The maritime merchant fleet, MAHART, operated under a Hungarian flag, ceased its operations in October 2000.

¹⁵¹ Balazs Edith, Mahart: Taking on Water, in Business Hungary, May 2001. According to Frommer’s, a travel company, Mahart is still state-owned. <http://www.frommers.com/destinations/hungary/0266020009.html> [Accessed 25/07/07].

In summary

Hungary's accession to the EU and the related necessary adoption of the *acquis communautaire* has a decisive influence on the country's future position among Europe's trading nations. It influences such areas as transport policy and customs organisation. Thus, the transport sector has in fact already been re-organised, infrastructure construction work has been initiated and implementing legislation has been adopted in numerous cases. Considerable progress has also been made in the adoption of simplified and IT-supported customs procedures and the improvement of administrative and operational capacities, which substantially simplify the import, export and transit of goods.

EU accession means, for Hungary, that it will be the Union's eastern border. As such, it will also play a substantial role as a major transit country and has thus great potential for developing a modern services sector, which will strengthen Hungary's role as a link between East and West. The integration of an Adriatic port country (Slovenia), at the same time as Hungary, will further facilitate Hungary's access to the sea. Therefore, this dynamic context, with trading opportunities at the eastern and the western borders, will once again change the country's response to being landlocked.

With regard to Hungary's waterways, the priority remains the expansion of river traffic on the Danube and the construction of the necessary and adequate infrastructure and service network to support transport on this waterway. Increasing the navigability of the Tisza river is another strategic development worth mentioning. It is also interesting to note that the Danube is one of the backbones of planned new transport corridors. Although canals are, in general, rarely economically viable and limited traffic remains a problem, they promise some advantages to landlocked Hungary. The planned Danube-Adriatic Sea route, for example, which would be an extension of the Monfalcone (Italy) port to Ljubljana (Slovenia) canal towards Győr (Hungary) or Bratislava (Slovakia), is just one such example.

In summary, being landlocked matters only little to Hungary. In fact, Hungary attempts to take advantage of this given situation by emphasising service sector development and exploiting the advantages of its role as a transit country. Only recently, Hungary managed to lure away high-tech investment from Ireland, so far considered as one of the best manufacturing sites in Europe. This is all the more interesting, as one of the reasons for these moves was also Ireland's geographical situation that requires over water shipments to get to the EU. Hungary's landlocked location, together with its borders with seven countries and connections to the emerging economies eastwards, was exactly what attracted investors. Another interesting example is that of a foreign electronics company that has started to produce game consoles in Hungary that are actually destined for sale in Japan.

Central Asia's landlocked countries

In contrast to the central European countries, central Asia is both landlocked and far from markets and this has been highly consequential for its economic performance, especially since the beginning of the economic transition. The region also has a very distinct historical legacy. Until the beginning of the 20th century, the rate of urbanisation was very low and therefore, the region's involvement in international trade as well. During the 20th century, its geopolitical situation reduced the exchange of goods and services within the region, in order to follow a strict Soviet-centred Comecon trading pattern. On the other hand, the landlocked countries of central Asia are ancient traders with a booming trade since 3000 B.C. Located along the ancient Silk Route they were actively involved in both eastward and westward oriented trade.

Today, the region's transit routes are fragile; security remains a substantial problem and finding alternate land-sea trade routes is a difficult venture. In a statement to the United Nations General Assembly in October 2000, the Permanent Representative of Kazakhstan pointed to the fact that prohibitive transport costs in Central Asia can amount to up to 60 percent of the value of manufactured imports.¹⁵²

Current developments

In a period of over a decade, Central Asia has nevertheless been able to develop and negotiate a number of transit routes including the ever so important pipelines for energy exports through the Russian Federation. In addition, China and the Islamic Republic of Iran can be transited by rail and road; the Trans-Caspian ferry routes offer transit by rail and road and towards the South, through China to Pakistan and India, access is granted by road. These main transport corridors have already opened landlocked central Asia to trade significantly, although much remains to be done, especially in terms of infrastructure maintenance, upgrading and rehabilitation, a priority objective of numerous transport assistance projects supported by international agencies (e.g. the UNECE and ESCAP Special Programme for Economies of Central Asia (SPECA); the European Bank for Reconstruction and Development (EBRD); the Asian Development Bank; United Nations Development Programme (UNDP), the World Bank; the Islamic Development Bank and the TRACECA Project of the EU).¹⁵³ Also, efforts to revive the old Silk Road have been high on the infrastructure development agenda of many of the aforementioned international institutions. In June 2001, the World Bank joined, among others, the EBRD, the EU and the Islamic Development Bank by approving a substantial credit to further the plan to link landlocked Central Asia with China and eventually, other markets. An interesting component of the World Bank investment is that it includes an institutional strengthening component within the framework of the project's highway building plan in Azerbaijan. It is assumed that a restructured and modernised Azeri road agency, which owns and maintains the roads and is responsible for the implementation of the highway project, is key to the success and the sustainability of the project.

The countries of Central Asia have made substantial efforts in adopting major international transport and transit conventions, including the TIR Convention. It is, however, not enough to sign and ratify Conventions, implementing them is even more important. Thus, for the TIR regime to work, certain institutional requirements have to be met. Complying with the construction requirements for vehicles or maintaining tachographs is difficult and it will take time, capacity building and money to make these conventions operational. Another area that requires urgent attention is a region-wide effort to harmonise existing regulations and rules. As described earlier, the TRACECA project includes such a component. It is obvious that harmonised rules, with regard to axle-load, transit charges, customs regulations, insurance and the introduction of IT, would lower transport and transit cost and time considerably.

¹⁵² Statement by H.E. Mrs. Madilna B. Jarbussynova Ambassador, Permanent Representative of the Republic of Kazakhstan to the UN, New York, 26 Oct. 2000.

¹⁵³ A further international initiative on transit transport cooperation is the Almaty Programme of Action, adopted in August 2003, to address the special needs of landlocked and transit developing countries. These special needs include transit policy as well as infrastructure development and maintenance.

Box 11: United Nations Special Programme for the Economies of Central Asia

Since 1997, the United Nations Economic Commission for Europe (UNECE) and the Economic and Social Commission for Asia and the Pacific (ESCAP), together with Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan and Uzbekistan, have been operating a programme, which focuses specifically on the economic issues of concern to the central Asian republics. One priority area for action is the development of transport infrastructure and the simplification of border-crossing operations in cooperation with other institutions. As a result, it is expected that SPECA countries will improve their transit and trade potential in central Asia and improve links in Europe and Asia.

With regard to regional/subregional co-operation or integration, central Asia is not yet as far evolved as could be theoretically possible. In reality, numerous obstacles, including security issues, political conflicts, informal charges at border crossings, transit taxes or visa requirements, have hampered the development of good cross-border relations and thus, also the flow and transit of goods within the region and toward other markets. The region's governments have, in fact, signed many agreements (bilateral and multilateral) with numerous lending and donor agencies or international organisations. There are more than five agreements within the central Asian and Caucasus region, all aimed at facilitating trade and transit in addition to the many international conventions. Unfortunately, more than once, these agreements stipulate different or contradicting sets of rules, procedures, mandates and institutional arrangements for the various projects or transit corridors.

In summary

Geography, i.e. being landlocked, is far from explaining everything about the current economic situation of Central Asia. Other factors and particularly the political climate and stability, have a major, if not more important impact. The example of this region also indicates clearly the need for a more concerted approach and more co-ordination between governments, donor agencies and international organisations. Agreements will only serve the purpose of facilitating transit and trade if they are harmonised, implemented and enforced. Being landlocked is certainly an additional burden on the central Asian republics, but many of today's problems could be alleviated if priority were to be given to moving sluggish reforms forward and improving regional co-operation to tackle the most urgent transit problems, reducing transport costs and accelerating access to world markets.

Being landlocked in Western Europe –the case of Switzerland¹⁵⁴

Switzerland is definitely the most successful landlocked country in the world and as the success of the Swiss economy and especially of the Swiss export industry indicates, a country that is neither suffering from nor affected by its landlocked status. The ingredients for such a success story are particularly “Swiss” and not readily transposed into other areas or other countries of the world. However, they are worth a closer look as they can certainly provide ideas of use to other landlocked countries. A striking result of the research undertaken within the framework of this study is that neither relevant literature nor Swiss authorities seem to consider their country a victim of landlockedness. Indeed, the geographical location of Switzerland is seen rather as a positive challenge and an incentive for creative solutions, both in transport, economic and trade policies. It should also be noted that Switzerland, an alpine state, is not only landlocked but also one of the most important transit countries in Europe.

¹⁵⁴ Although the case on Switzerland was written in 2003, it presents important and useful information on strategies for landlocked and transit countries to improve transit transport cooperation and increase trade integration with the rest of the world.

Switzerland – The economic and trade answer to being landlocked

Switzerland is one of the world's leading export countries with very high export quotas, reaching up to 95 percent in the watch-making industry, 85 percent in chemicals and pharmaceuticals and 76 percent in engineering and vehicle manufacturing.¹⁵⁵ As early as the 19th century, watch and clock making, as well as the silk-ribbon weaving industries, were geared to the export trade. Whereas the textile industry lost its weight towards the end of the 19th century, the watch-making sector continued to expand and the very profitable chemical and machine-building industries took an essential place in Swiss industrial production. Within a short period of time, Switzerland managed to develop export industries of major international importance, despite being landlocked and despite a lack of mineral reserves, coal or other raw materials required in the chemical industry. Favoured by frenetic railway building and the opening of the Gotthard tunnel in 1882, as well as by free navigation on the Rhine, Switzerland, very early on, became both connected to the sea and a major North-South alpine transit country. The shift toward a service-based economy started during the two world wars and today, Switzerland is among the biggest exporters of commercial services.

Today, Switzerland is not only a leading supplier of watches, chocolate and cheese but also of machinery, elevators, escalators, high tech, pharmaceutical and biotech products and packaging equipment (with, today, many of the components produced abroad). These exported goods, and also services, have in common the fact that they are high value and high value-added. Therefore, transport costs matter much less for both required imports and subsequent exports. Switzerland has thus managed to develop economic sectors that perform very well despite landlockedness.

Trading in the middle of Europe

Industrial and trade developments, however, do not explain all. Switzerland has a very stable political climate and, although being landlocked, Switzerland is in the middle of Europe and in the middle of its most important trading partners, the member states of the EU with an export share, in 2000, of 62 percent of all foreign sales. Other important trading partners are the Americas and Asia, each with a share of 15 percent, the rest of Europe, i.e. excluding the EU countries 5 percent, Africa 2 percent and Oceania 1 percent.¹⁵⁶ Imports are mainly obtained from the EU countries (74.47 percent of all imports from industrialised countries) and to a lesser extent (10.82 percent) from the major overseas industrialised countries (US, Canada, Japan, Australia and New Zealand). Other important suppliers are in Asia.¹⁵⁷ Thus, most of the Swiss trade takes place within the region but Switzerland is also trading with highly diversified trading partners all over the world.

Major trading customers and suppliers are today Germany, the US, Japan and China. Switzerland is a member of the European Free Trade Association (EFTA) and enjoys preferential trade arrangements with the EU, including the elimination of important customs duties and the integration into common customs procedures, which also aim at facilitating transit procedures. Since 1987, Switzerland is a party to the (EU) Convention on Common Transit, which was amended in 2001 to include the increased use of the New Computerised Transit System (NCTS), already launched in Switzerland, on a trial basis, in 2000. The important volume of trade between Switzerland and the EU made the conclusion of preferential trade, customs and transit agreements possible. The bilateral treaties between Switzerland and the EU are a further indication of this.

¹⁵⁵ Osec, Business Network Switzerland: Swiss Foreign Trade 2001/2002.

¹⁵⁶ Ibid.

¹⁵⁷ Ibid.

Switzerland – A landlocked transit country

Geography has not only made Switzerland a landlocked country but also a major alpine transit country. Indeed, there are not many possibilities for freight forwarders to cross the Alps in the North/South and opposite directions. Switzerland, together with France, Italy and Austria, has, therefore, a very particular role as a transit country and its negotiating powers, with regard to transit permits and truck weight, are rather broad. The Gotthard railway tunnel, which opened in the late 19th century, marked Switzerland's beginning as a transit country. Throughout the last century infrastructure was improved and transit agreements concluded, such as the 1992 transit agreement with the then European Economic Communities (EEC), in which Switzerland committed to the construction of high-capacity axes for rail-goods traffic and the EEC accepted the 28-ton limit for transiting trucks.

In 1998, within the framework of the EU-Switzerland bilateral treaties, a new transit agreement was signed. For the EU, Switzerland has a strategic position with regard to alpine traffic and the alleviation of traffic in the EU member states of Austria and Italy. This new agreement foresees the gradual introduction of access to Switzerland for trucks of up to 40 tonnes; the establishment of an annual transit permit quota system and flat-rate charges for empty or lightly loaded trucks of 28 tonnes. At the same time, Switzerland undertook major investments to improve its infrastructure and especially the railway and tunnel network, to unburden land transport in favour of trains and the creation of more combined transport corridors. This new bilateral agreement has not only political, but also economic implications for Switzerland's freight forwarders and exporters. With information technology, e-commerce, supply-chain management and new logistics techniques, a secure and stable legal framework was needed that enables all players involved to use the available capacities optimally. The fiscal consequences, on the other hand, will ensure the financing for infrastructure development and maintenance. All this is expected to decrease the costs associated with the logistics process and increase the competitiveness of Swiss companies. The transit agreement is also a very good example of how governments are trying to match environmental, traffic and economic concerns, an equilibrium that is not easily found.

Box 12: The Rhine – Switzerland’s Natural Access to the Sea

Switzerland is located on Europe’s most important inland waterway, the Rhine. In 1815, the final act of the Congress of Vienna established the principle of the freedom of navigation on international waterways and gave birth to the Central Commission for Navigation on the Rhine. In 1868, the Convention of Mannheim updated the main rules that had governed the Rhine navigation since 1831 and included the latest technical, economic and political developments. In 1963, the Mannheim Convention was again amended to become the Revised Convention for Rhine Navigation. The main principles contained in the Mannheim Convention and never abrogated by subsequent amendments are freedom of navigation, equal treatment of all fleets, exemption from navigation duties, freedom of transit for all goods, obligation of the member states to maintain the waterways, uniform safety regulations for vessels and navigation, uniform jurisdiction in navigation affairs and navigation courts for the Rhine and the establishment of the Central Commission for Navigation on the Rhine. The Central Commission (member states: Switzerland, Germany, France, Belgium and the Netherlands) is among the oldest existing governmental organisations and continues to ensure the freedom of navigation on the Rhine and to maintain a uniform legal regime, which governs the full length of the river. Compared to the Danube, the Rhine has a much higher economic importance and a much larger transport volume. Furthermore, the technical standards and the transport capacities on the Rhine are more advanced, especially in the area of container transport. The states bordering the Rhine use this potential much better than those of the Danube do. A big advantage is, of course, the fact that the Rhine is navigable by ocean-going vessels until well into Germany and by river barges to Basel, Switzerland. Container transport, combined with road and rail traffic, has led to a boom in the construction of at least 30-container terminals, as well as combined traffic terminals along the Rhine. In Switzerland, the port of Basel is one of the most important Rhine ports, with container terminals handling waterway-railway and waterway-road traffic links as well as other services, including storage and processing. In 1998, Switzerland was also granted navigation rights on other waterways within the framework of the Central Commission.

In summary

The example of Switzerland leads to an important conclusion: being landlocked does not have to be considered a problem and does not necessarily have to be treated as such. Switzerland found solutions to transport bottlenecks by giving more attention to transport policy and transport alternatives. The country decreased the impact of possible high transport costs, which are often associated with being landlocked, through an industrial and trade policy that favours the export of high value and high value-added products as well as services. Switzerland sought alternatives and answers within the regional context, but without actually joining the predominant regional grouping. And very importantly, transport routes were traced and transport agreements were concluded according to economic and not political considerations.

What remains to be done – conclusions and recommendations

This brief overview shows clearly that geography is not destiny. Geography, or in this case, more precisely, being landlocked, certainly influences economic, infrastructure and political decisions. However, it cannot be blamed for all economic, social and political development problems that a country faces and it should not serve as an excuse for inertia and slow moving reforms. There are examples of how even remote countries (e.g. Australia or New Zealand) have become successful traders and there are examples of landlocked countries that have found their very own way out of their geographical “handicap”.

The problems of landlocked countries can be overcome, in the long run, with the right mix of many, often rather country- or region-specific, ingredients. Adequate “compensation” policies and investments are one essential means, lowering the psychological barriers that often seem to block the definition and use of some measures. For landlocked countries it is, therefore, all the more important to get basic macroeconomic and trade policies right, to cut

red tape in freight operations and to speed up customs clearance procedures. Governments have to accept that they need eventually to become, and act as, real “trade-enablers”, in order to facilitate the flow of goods. It is also very important to raise awareness and increase information dissemination both among landlocked and transit countries and among the private operators.

As landlocked countries are often also transit countries for their neighbours, the issue of carefully balancing environmental concerns, traffic and transport requirements is a high priority for them as well. On the other hand, being a transit country also opens new potential opportunities for landlocked countries. The development of a modern, up-to-date service infrastructure for transiting cars, trucks, trains, airplanes or ships adds value to the transit process, creates jobs and creates a whole new logistics sector, with distribution centres, warehouses, technical and even processing facilities.

This said, being landlocked in the heart of Europe certainly does not have the same consequences as being a landlocked country in the heart of Africa, Central Asia or South America. The landlocked status is very closely intertwined and linked with a complex set of challenges and problems and therefore, cannot be tackled as an isolated problem. Governments in landlocked and coastal countries, as well as the international community and donor agencies, should attach increased importance to this multifaceted mix of challenges and attempt to deal with these challenges in their many aspects. There are certainly priority actions to be taken and there are very particular region-wide measures to consider. But there is also ample space for more generic solutions that apply to all landlocked countries alike. Work would be particularly useful with regard to trade and customs facilitation measures, cross-border infrastructure development or coordination and implementation of regional or sub-regional approaches. The international community should also be open to monitoring, especially with regard to the implementation of agreements that guarantee better transit conditions and access to the sea.

In the following, some of the main points that we identified in this paper are summarised. This brief list of recommendations is by no means exhaustive, but it is intended to provide incentives for further discussion and, hopefully, for action.

Recommendations

Trade and economic policies

Assuming that there is an interaction, or even dependence, between being landlocked and appropriate economic policy or reform, it is important for a landlocked country to re-examine its composition and direction of foreign trade, its main suppliers and customers. Developing comparative advantages or attracting capital to develop export-driven sectors is only possible under certain circumstances, which might not necessarily exist in a landlocked country that is far from major markets and has no real access via viable transit routes to the sea. Copying an export-driven growth policy that was successful in one part of the world does not necessarily mean that it will work for a remote landlocked country in another part of the world. Reliability, speed and fast response are the required assets for export-oriented growth. When investors do not find these basic requirements, investment will move logically to other countries. Economic and trade policies in landlocked countries should therefore only follow this direction if the basic conditions actually exist.

Export-oriented growth is only one way to economic success. There is scope for developing sectors that are either high-value or high-value added, that are less dependent on lots of “expensive” imports or that no longer require physical transport, for example, telecommunications or IT, R&D centres. Also, for lightweight or low-volume goods, shipping costs are much less of an issue and air travel could even be an alternative. Also, developing a high-level logistics industry that can provide services to transiting operators might help increase the value to transit operations and help new sectors to flourish. Governments should consider such options and establish the best-suited trade and economic policy direction for their particular landlocked country, whenever possible in coordination with their region’s markets and conditions. Growth should be equitable and broad based and when export development goes hand in hand with infrastructure development, impediments to growth can be removed efficiently.

The development of coherent and comprehensive trade transportation policies to support the growing importance of transport issues, infrastructure and transit corridors will continue to rank high on government agendas. In a context where tariff barriers will, eventually, no longer hamper the flow of goods, governments have to make sure that, over time, other barriers disappear as well to ensure that goods reach regional and world markets alike. Being landlocked will then no longer be such a problem as land, sea and airports will become gateways at the origin and destination of real trade corridors.

Cost reduction

Many of the costs related to shipping, freight handling, transit or customs are the avoidable consequences of, for example, complicated and lengthy customs clearance procedures, poorly coordinated control services, high fees, too much red tape, inadequate capacities, poor infrastructure and poor packaging or loading technologies. Such costs are very much under the control of policymakers in a landlocked country. Corruption and fraud are other areas that require urgent action to decrease costs and, at the same time, install a climate of confidence, stability and security. Governments, either alone or in coordination with their neighbours, can therefore take concrete steps to reduce the high transport cost burden for local companies. It would, for instance, be useful to revisit regulations and procedures of landlocked countries and wherever possible, harmonise them with regional/international practice.

There is a general tendency for shipping costs to fall over time, as better technologies are developed and through the measures described earlier, reduce port and customs delays and eventually also create speedier sea travel. Containerisation and the resulting ease of moving goods from ships to trucks or trains has already reduced port costs and lead time in countries with such facilities. Shipping costs, which depend on the earlier mentioned issues, as well as other factors such as infrastructure and IT development, will certainly one day be much less a barrier than they are today.

Legal action

An enabling environment that provides both stability and support for operators and investors, allows for fair competition and punishes abuse, is a prerequisite for economic growth and development in landlocked countries. There is a need to enact necessary concession laws to permit the participation of the private sector or to overhaul transport laws to harmonise them, whenever possible, with regional or international practice. Privatisation, liberalisation and deregulation should be fostered to establish more competition, improve efficiency and reduce costs. However, in many cases, normative action, i.e. the adoption of new laws, might not actually be necessary. Instead, more focus should be given to the implementation of already

existing laws and regulations, to the development of a conducive institutional framework, to strengthening the capacities of the judiciary, to continuing legal education for professionals and to the enforcement of existing laws, as well as bilateral or multilateral agreements. It is very important to enlist the political will to address the issue of implementing laws, agreements and institutional reform. The signing of agreements will not change either the economic or the legal situation in a landlocked country. Therefore, subordinate agencies, charged with the actual supervision or enforcement of legal rules or agreements, need to be controlled and measures need to be taken to reduce fraud, corruption and the spread of the informal sector.

Infrastructure development

Infrastructure development remains a high priority for both landlocked and transit countries. This, however, does not only mean building new roads or railway lines, it means regular maintenance work, improving transport supply capacities, strengthening facility management systems, including through information technology in port or railway companies and a coherent transport policy. Attention has to be given to capacity constraints, i.e. out-of-date equipment, including rolling stock, ships, trucks or ports and handling facilities.

All this requires funds that often have to come from abroad and are channelled through bilateral or multilateral donor agencies. These financial resources are limited, time-bound and insufficient to finance infrastructure development in the long run. Replacing or supplementing them to achieve a sustainable system of financing infrastructure or maintenance works is, therefore, very important. Options certainly exist in the form of vehicle charges, road taxes, petrol taxes, road charges etc. The receipts of these charges should, in any case, go as directly as possible towards road construction and maintenance to avoid any additional administrative overheads. In this respect private sector participation and investment and the pooling of regional funds from public and private sources also deserve increased attention. Building real “trade corridors” to link landlocked countries with world markets, but in a first instance, particularly regional markets, will be the challenge of the coming years. Governments should be prepared to include such concepts in their transportation policies.

Regional/subregional coordination

Bilateral and multilateral agreements between neighbouring countries are central to any reform and any improvement of a landlocked country’s situation. The co-operation between neighbouring countries is the most essential ingredient in this regard, as it makes the coordination of cross-national issues possible. The natural unit for improvement in this setting is not the nation but the region or, for example, the specific transport corridor(s) in question. Integrated and targeted regional and international approaches, which broaden the scope of infrastructure or transport projects and which could, for example, be initiated by regional intergovernmental groupings that take a lead role, will encourage coordination and cooperation on a level that promises an actual improvement of a landlocked country’s situation. More regional support for such agreements, including monitoring and regular review mechanisms, for example, in the case of transit agreements, is an important aspect in this regard. Trans-border agreements should make borders less of an impediment to the movement of goods. They should facilitate the development of a more “international” transportation infrastructure.

Consultations or alliances with neighbouring landlocked or transit countries can help to share experiences, to economise on costs and to increase bargaining powers. International

infrastructure or transport agreements, such as the TIR regime, have been very successful in facilitating transit procedures in the UNECE area and beyond. The development of such a regime might be a useful option for other regions as well.

Institutional framework and capacity building

The best computer system in a customs administration will not improve anything if the operator does not know how to use it. Also, river navigation, especially large-scale navigation, is only safe and reliable if crews are well trained in new navigation systems and the rules that apply. Port administrations and government institutions too need to be up-to-date with the latest developments. Therefore, institutional and staff capacity building is an important aspect in the improvement of a landlocked country's state. Public administration reform to improve the performance of all agencies involved, the development of a single-window concept, the streamlining to one-stop-shops for import and export clearance and the strengthening of the whole institutional framework should be given serious consideration. Concrete initiatives include the establishment of region-wide harmonised transit procedures, such as the (EU) Convention on Common Transit or trade facilitation measures. The latter are fundamental for any landlocked country and range across a broad analysis and structuring of the key constraints, to the definition of possible and adequate solutions, to computerised transit or customs procedures or to electronic documents (e.g. UN/EDIFACT). Trade facilitation, in the broad sense, requires: institutional capacity building, training measures, awareness raising on technical and broader aspects, the strengthening of trade facilitation bodies and the participation of the business community on the national level.

Other very important initiatives aim at increasing the level of service of all agencies involved and include such practical measures as customs clearance at company sites and on-board cargo trains to avoid lengthy delays and high transport costs. The SECI-World Bank TTFSE project, for example, includes a training and distance learning component also for transport operators. All these concrete and practical steps, if rigorously implemented and if backed at the senior political level will, without doubt, contribute to simplified procedures, shorter delays and better transit conditions. Furthermore, certain institutional and organisational structures have to be in place in order to implement regulations, agreements and conventions. The transport sector in landlocked countries and the public institutions need to be adequate to ensure the smooth running of permit granting and documentary procedures.

Public-private co-operation and partnerships

The involvement of the private sector in infrastructure development, in consultations, in transit negotiations, in finance operations or facility management is not only useful, but also a highly recommended option for landlocked countries. A fruitful dialogue between private-sector representatives and law and policy makers will help to better define the real needs of the market and encourage the search for viable and sustainable solutions. It will facilitate reform efforts and help define transit routes that follow economic and not necessarily political criteria. Private operators might also be better equipped to manage certain facilities, which are in many instances still State-owned. Private companies can also play a substantial role in financing certain projects or in entering concession agreements, which can help governments in landlocked countries in many ways. The input of the business sector is also fundamental in defining and implementing trade facilitation procedures.

The public sector will always have to play the lead role as the regulator and initiator of infrastructure development. The public sector is the only possible supervisory body. In addition, the public sector has to provide an adequate and coherent framework policy, aimed

at upgrading professional skills of the private sector in many landlocked and transit countries. A shortage of skilled labour can create bottlenecks that will deter potential investors. The private sector, on the other hand, has many competencies that help do things better, faster and more efficiently and for its potential to invest funds and for its know-how, should be used to help modernise national infrastructure.

International organisations

The plight of landlocked countries is no longer hidden and many international agencies within and outside the United Nations system are today addressing the issue of landlocked countries. The United Nations General Assembly holds regular progress reviews and the lead agency, the United Nations Conference on Trade and Development (UNCTAD), has a specialised unit dealing with landlocked countries. Regional commissions (e.g. ECA, ESCWA, ESCAP, UNECE, UNECLAC/CEPAL) too, are paying increased attention to transit, development, customs reform and trade facilitation in landlocked countries. Multilateral donor agencies, including the World Bank and the EBRD are funding projects destined to improve the situation of landlocked countries.

What remains to be done is a better harmonisation of policies, practices and recommendations of all international agencies and bilateral donor agencies involved. Furthermore, there is a need for more funds; aid projects in landlocked and transit countries need to be better coordinated and in many cases, the scope of the projects (which international organisations can assist in defining and implementing) requires broadening and better focus to include the regional or sub-regional, as opposed to a country-specific approach.

Some of the more specific concerns of landlocked countries such as their vulnerability, insecurity and dependence on transit countries, need to receive heightened attention. Whether this is best done in a Convention that deals with the issues or whether other means are better suited, remains to be clarified on a case-by-case basis.

Chapter 6 Conclusion

This chapter reviews the main challenges facing landlocked developing countries (LLDCs) and presents lessons learned from countries that have successfully overcome the lack of access to the sea.

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 goods.¹⁵⁸

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 countries.¹⁵⁹ 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 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.

¹⁵⁸ 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.

¹⁵⁹ 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.

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 framework¹⁶⁰ 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 promote competition by encouraging participation of the private sector, both foreign and local, in certain industries such as logistics,¹⁶¹ railroads and port operations. Institutional reform is also necessary to create or strengthen institutions, including national legislation, to enforce international conventions or agreements. These

¹⁶⁰ 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.

¹⁶¹ 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.

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.

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.