Evaluating the current situation of the policy and regulatory frameworks for promoting economic diversification on trade in landlocked developing countries

Summary: Economic diversification plays a crucial role in promoting sustainable growth and resilience in a country's economy. Mongolia, renowned for its reliance on the mining sector, acknowledges the need to diversify its economy to enhance trade and achieve long-term development goals. In this context, conducting a pilot study to evaluate the effectiveness of policy and regulatory frameworks in promoting economic diversification on trade becomes pertinent. This essay aims to explore the significance of this pilot study within the framework of the Vienna Declaration.

I. Analysis of current trade situation in landlocked developing countries

Landlocked developing countries (LLDCs) face unique challenges due to their lack of direct access to coastal ports. These countries heavily rely on their neighboring transit countries for trade, which often imposes additional costs and delays. This essay aims to analyze the current trade situation in LLDCs, considering the barriers they encounter and potential solutions.

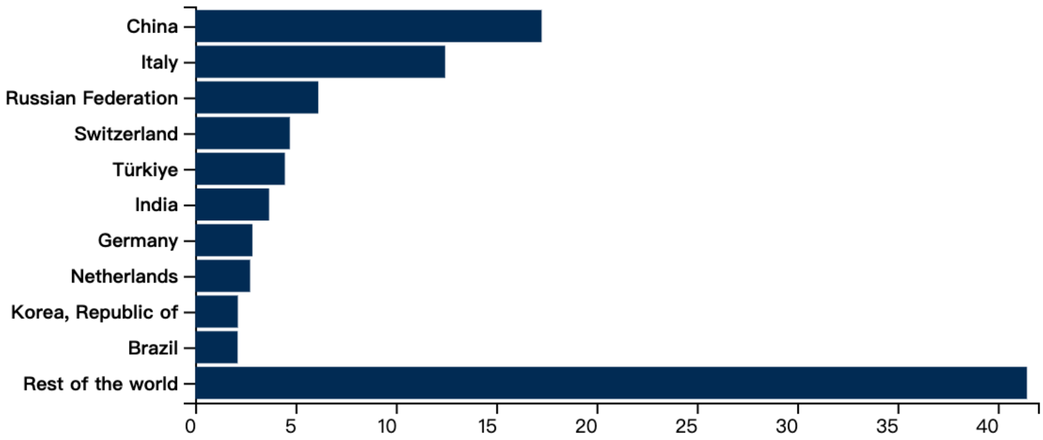
The geographical disadvantage of being landlocked poses significant hurdles for LLDCs in terms of trade. Without direct access to ports, these countries encounter higher transportation costs, logistical complexities, and extended shipment times. These factors contribute to a reduced competitiveness for their goods and services in the global market, limiting their economic growth potential.

The transit issues faced by LLDCs have adverse impacts on their trade. Land transportation across multiple borders can be hindered by bureaucratic regulations, corrupt practices, and inadequate infrastructure. These barriers lead to customs delays, excessive border fees, and increased vulnerability to trade disputes. Such challenges discourage foreign investors and hinder the development of regional trade agreements.

Firstly, the export volume of landlocked developing countries provides an important indicator of their trade performance. This metric helps measure the level of economic activity generated through trade and can highlight any significant changes in trade patterns. By examining the export volume, policymakers can assess the extent to which the current policy and regulatory frameworks have succeeded in driving trade growth and economic diversification. A comprehensive analysis should encompass both the overall trend in export volume as well as any variations among different countries within the landlocked developing countries group.

The current trade partners who imports goods and services from LLDCs are shown in the following Figure 1.1. and Table 1.1. With China being the largest importing partner with LLDCs, some countries in Europe also has a relatively large trade relationship with LLDCs, partly due to the fact that they are geographically close to LLDCs.

Figure 1.1. current Landlocked Developing Countries exports by partners (World Total Value USD)



Source: International trade Center (2023)

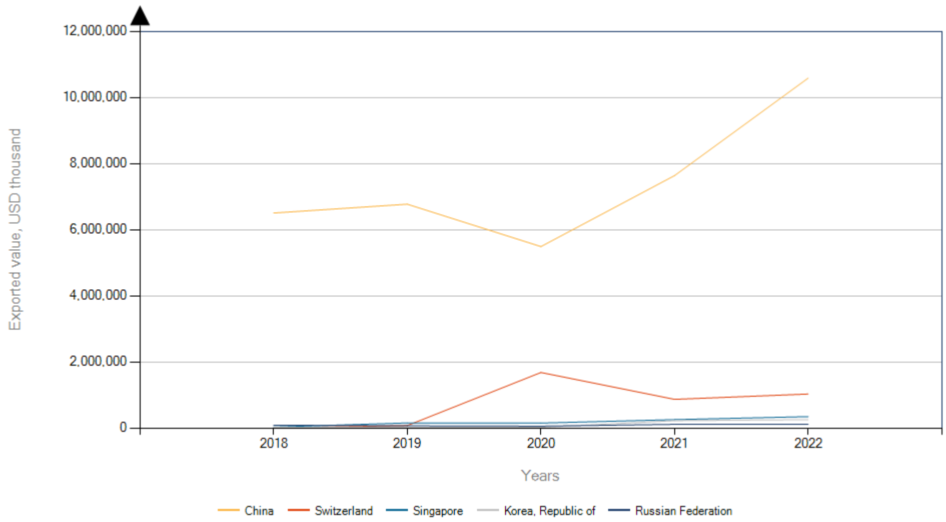
Table 1.1 current Landlocked Developing Countries exports by partners (World Total Value USD)

Importers	Exported value in 2018	Exported value in 2019	Exported value in 2020	Exported value in 2021	Exported value in 2022
China	28,934,408	24,413,677	22,373,115	30,059,393	46,564,370
Italy	18,825,940	15,195,931	11,887,612	19,716,284	33,594,076
Russian Federation *i*	9,804,589	10,625,613	8,896,729	11,757,689	16,544,898
Switzerland	10,808,165	10,146,070	13,185,943	13,494,318	12,718,860
Türkiye	5,139,661	7,618,771	6,885,289	9,460,095	12,053,839
India	6,696,191	7,191,009	6,351,672	9,069,283	9,931,343
Germany	5,467,347	5,673,700	4,726,808	7,157,699	7,690,463
Netherlands	7,791,537	5,571,340	4,108,182	5,833,356	7,379,930
Korea, Republic of	3,713,597	3,639,896	1,387,964	2,759,557	5,732,936
Brazil	4,596,528	4,165,984	4,237,193	4,217,282	5,705,201

Source: International trade Center (2023)

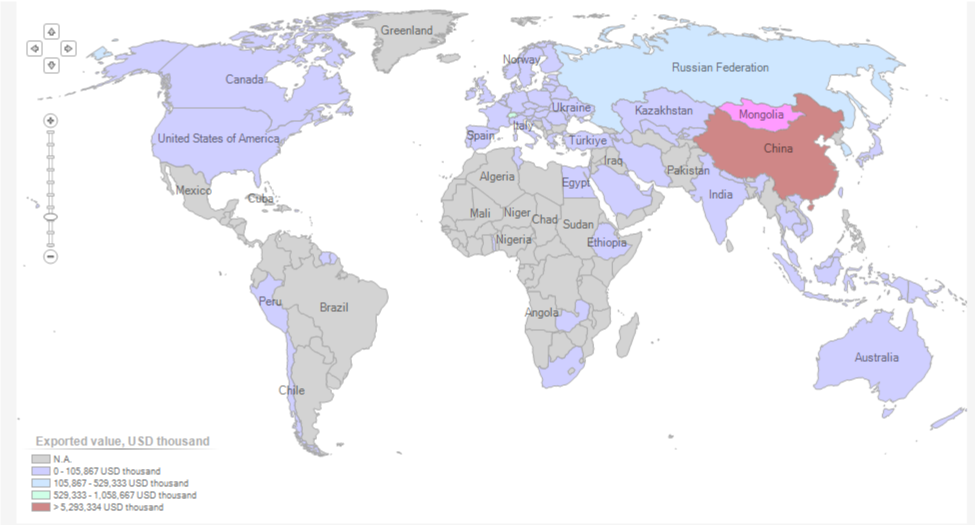
Using Mongolia as an example, as shown in the following Figure 1.2. and 1.3. Mongolia primarily export products to adjacent countries such as Russia and China, which can show clearly the limits for LLDCs trade. LLDCs, due to their lack of transportation means and disadvantage in geographical locations, can only trade primarily with nearby countries, which is the best way to reduce transportation cost.

Figure 1.2. List of Importing markets for a product exported by Mongolia



Source: International trade Center (2023)

Figure 1.3. List of Importing markets for a product exported by Mongolia in 2022



Sources: ITC calculations based on Mongolian Customs statistics since January, 2021.
ITC calculations based on UN COMTRADE statistics since January, 2016 and until January, 2021.
ITC calculations based on Mongolian Customs statistics since January, 2015 and until January, 2016.
ITC calculations based on UN COMTRADE statistics since January, 2013 and until January, 2015.
ITC calculations based on Mongolian Customs statistics since January, 2010 and until January, 2013.
ITC calculations based on UN COMTRADE statistics until January, 2010.

Secondly, understanding the export product category is crucial for identifying the diversification potential in these countries' economies. An analysis of the current trade situation should highlight the range of products that landlocked developing countries are exporting. This examination allows policymakers to evaluate the level of product diversification and identify any potential areas for growth or improvement. By focusing on the export product category, policymakers can gauge the countries' competitiveness in international markets and identify sectors that may require targeted support or policy interventions. And an analysis of the main trade industries in landlocked developing countries helps in identifying the sectors that contribute significantly to their economies. This information is crucial for policymakers to understand the specific industries that are driving economic activity and export growth. By identifying the main trade industries, policymakers can craft policies and regulatory frameworks that incentivize growth and promote diversification within these sectors. Additionally, this analysis can also highlight potential areas of specialization for these countries, allowing them to leverage their unique resources and capabilities.

From the perspective of the product and service type being exported, Mongolia’s product exported value in 2022 is 12,557,709 USD and service export value is 719,000 USD in 2022. This shows the tremendous difference between product export and service export value, which shows that Mongolia’s current export relies primarily on product section instead of service section.

Among all products being exported, the largest section is mineral fuels, mineral oils and products of their distillation, bituminous substances (Code: 27), whose export value is 6,766,199 USD. The second largest product category is Ores, slag and ash (Code: 26), whose export value is 3,679,216 USD. And the third largest product category is natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad (Code: 71), whose export value is 1,112,176 USD. Among all services sectors being exported, commercial services (Code: SOX), transport

(Code: 3) and other business services (Code: 10) rank in the top three. The exported value of the three are 715,000 USD, 483,000 USD and 153,000 USD respectively.

In summary, there’s still rather large potential in terms of service sectors. And the main products being exported are raw materials, which also has potential in terms of trade after certain manufacturing procedures.

In conclusion, LLDCs face numerous challenges in their trade due to their landlocked position. Higher transportation costs, logistical complexities, and delayed shipments create barriers that hinder economic growth and development. However, these challenges can be addressed through international cooperation, improvements in infrastructure, and the establishment of proactive trade facilitation measures. By focusing on these aspects, LLDCs can unlock their trade potential, enhance regional integration, and foster economic progress.

II. Challenges faced by landlocked developing countries in trade

Landlocked developing countries face several challenges in trade, which affect their economic development and hinder their efforts towards economic diversification. One major challenge is the lack of direct access to seaports, making it expensive and time-consuming to import and export goods. This geographical disadvantage increases transportation costs and reduces the competitiveness of landlocked countries in the global market.

Inadequate transport infrastructure is another significant challenge. Landlocked developing countries often lack efficient road and rail networks, which are crucial for the smooth flow of goods and services. Poor infrastructure increases transportation costs, delays deliveries, and diminishes the overall competitiveness of these countries. Limited access to reliable and affordable transportation infrastructure hampers their ability to participate fully in international trade.

Customs and border procedures present another obstacle to trade. Landlocked developing countries often have complex and time-consuming border crossing procedures, including multiple inspections, paperwork, and bureaucratic hurdles. These lengthy and costly procedures create delays that can hinder trade transactions, reduce competitiveness, and discourage foreign investments. Streamlining customs processes and implementing efficient border management systems could significantly improve trade flows for landlocked countries.

Inadequate trade facilitation measures also contribute to the challenges faced by landlocked developing countries. Tariffs, non-tariff barriers, and cumbersome regulations imposed by transit countries can further increase trade costs for landlocked countries. Additionally, complex licensing requirements, sanitary and phytosanitary standards, and technical barriers to trade pose additional challenges. These barriers create uncertainties and increase transaction costs, making it difficult for landlocked countries to engage in international trade.

Limited market access is another challenge for landlocked developing countries. Without coastal access, they must rely heavily on transit countries to gain access to global markets. However, these transit countries may impose tariffs or non-tariff barriers, creating additional obstacles for trade. The lack of market access limits the potential for export diversification and deprives landlocked countries of opportunities to expand their economies.

In conclusion, landlocked developing countries face numerous challenges in trade, including limited access to seaports, inadequate transport infrastructure, cumbersome customs procedures, trade barriers imposed by transit countries, and limited market access. Addressing these challenges is crucial for these countries to promote economic diversification and enhance their participation in international trade. Policy and regulatory frameworks should be designed and implemented to provide necessary support and facilitate trade for landlocked developing countries, allowing them to overcome these obstacles and realize their full economic potential.

III. **Policy Review**

Mongolia has adopted various policies and regulations to promote trade in goods. For instance, the government has implemented preferential trade agreements with countries in the region, such as China and Russia, facilitating market access and tariff reductions. These agreements have played a crucial role in expanding Mongolia's export market.

However, challenges remain in terms of non-tariff barriers, such as cumbersome customs procedures and inadequate infrastructure. These issues hinder the competitiveness of Mongolian goods in international markets. To address these challenges, the government should invest in improving transport infrastructure and streamlining customs processes to facilitate trade in goods effectively.

In recent years, Mongolia has recognized the importance of promoting trade in services as a key driver of economic diversification. The government has introduced policies to attract foreign investment in sectors such as tourism, education, and health services. Additionally, the establishment of the Mongolian National Chamber of Commerce and Industry has facilitated cooperation between domestic and foreign service providers.

Notwithstanding these efforts, barriers to trade in services persist. Limited access to reliable and affordable internet connectivity poses challenges in delivering online services, particularly in remote areas. Furthermore, there is a need for further improvements in the legal and regulatory frameworks governing intellectual property rights and professional qualifications recognition. Enhancing access to financing for service providers and promoting specialized training programs can also contribute to the growth of the sector.

IV. Recommendations

To further enhance economic diversification through trade in goods and services, the Mongolian government should consider the following recommendations:

a) Enhance market access: Strengthen efforts to negotiate additional preferential trade agreements, particularly with countries beyond the immediate region, to diversify export markets.

b) Invest in infrastructure: Allocate resources to improve transport infrastructure, such as roads, railways, and ports, to facilitate the movement of goods and reduce transportation costs.

c) Streamline customs procedures: Implement measures to simplify and modernize customs processes, reducing bureaucratic hurdles and promoting efficiency in cross-border trade.

d) Develop digital infrastructure: Expand access to reliable and affordable internet connectivity, particularly in remote areas, to foster online service delivery and enhance competitiveness.

e) Strengthen legal and regulatory frameworks: Revise and update laws related to intellectual property rights and professional qualifications recognition to promote fairness and transparency in trade in services.

V. **Conclusion:**

Although Mongolia has made commendable efforts in promoting economic diversification through trade in goods and services, there is still considerable room for improvement. Enhancing market access, investing in infrastructure, streamlining customs procedures, developing digital infrastructure, and strengthening legal and regulatory frameworks are key areas requiring attention. By addressing these challenges, Mongolia can effectively harness the potential of trade in goods and services to fuel economic growth and reduce dependence on the mining sector.