

Trade performance of
Asian landlocked
developing economies:
State of play and the
way forward



Witada Anukoonwattaka
Aman Saggi

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Trade performance of Asian landlocked developing economies: State of play and the way forward

Witada Anukoonwattaka¹ and Aman Saggu

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Abstract

Despite experiencing a decade of rapid economic and export growth, Asian land-locked developing countries (LLDCs) are still in a difficult position with regard to integration with the rest of the region and the global economy. This paper examines the changes in trade structure and performance of Asian LLDCs. It shows that after a decade-long global commodity boom, most of the Asian LLDCs have become resource-dependent. In addition to their geographical disadvantages, the reasons for high trade costs in LLDCs include trade barriers and service trade restrictions as well as poor trade facilitation performance. However, as those factors are related to policies, reforms in the right direction could mitigate economic challenges facing Asian LLDCs. This study also underscores the importance of global and regional cooperation efforts to assist those countries in enacting sound trade policies and strategies that put structural economic transformation at the centre of such efforts.

Key words: Land-locked developing countries, trade performance, export diversification, industrialization, trade costs, trade in goods, trade in services, trade liberalization, regional integration, preferential trade agreements, WTO, GSP, ESCAP and Asia.

JEL: F10, F13, F15, O14

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Abbreviations and acronyms

APTIAD	Asia-Pacific Trade and Investment Trade Agreements Database
APTA	Asia-Pacific Trade Agreement
APTTA	Afghanistan-Pakistan Transit Agreement
APoA	Almaty Programme of Action
AVE	ad valorem equivalence
DFQF	duty-free quota-free
ECI	Economic complexity index
EU	European Union
GSP	Generalized System of Preference
GVCs	global value chains
ICT	information communication technology
IPNs	international production networks
ISCC	international supply chain connectivity
ISSC	international supply shipping connectivity
LDCs	least developed countries
LLDCs	landlocked least developing countries
NTBs	non-tariff barriers
NTMs	non-tariff measures
PTA	preferential trade agreement
RoO	Rules of Origin
SPS	sanitary and phytosanitary measures
STRI	Service Trade Restriction Index
TBT	technical barriers to trade
TFA	WTO Trade Facilitation Agreement
UNCTAD	United Nations Conference on Trade and Development
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
VPoA	Vienna Programme of Action

1. Introduction

Two hundred years ago, Adam Smith observed that coastal cities and areas around rivers were more developed than inland (and landlocked) areas because goods could be more cheaply transported over water than across land – especially in the African continent and in Asia. He argued that developmental challenges faced by inland (and landlocked) areas were, in large part, due to the fact that it was costlier to transport goods across land than by sea, thereby diluting or entirely negating the comparative advantage of nations (Smith, 1776). Despite significant political, economic and technological advances over the last two centuries, many landlocked countries today continue to face higher trade costs than countries with access to open oceans, which in turn constrains their socio-economic development prospects. Indeed, many landlocked countries today are also among the poorest nations.

There are 12 LLDCs in the Asia-Pacific region – Afghanistan, Armenia, Azerbaijan, Bhutan, Kazakhstan, Kyrgyzstan, Lao PDR, Mongolia, Nepal, Tajikistan, Turkmenistan and Uzbekistan.³ Similar to a typical landlocked developing country, Asian LLDCs face significant and persistent challenges to economic growth and development. Access to major markets has been identified as one of the main constraints to poverty reduction and economic integration in LLDCs (Faye and others, 2004). The international community has taken several steps to support the integration of LLDCs into the global multilateral trading system. In 2003, the Almaty Programme of Action (APoA) called for joint efforts by the international community to address economic growth and development challenges faced by transit and landlocked countries, with significant technical and financial assistance from developed economies.⁴ In 2014, the Vienna Programme of Action (VPoA) was adopted, taking into account the unfinished agenda of the APoA. It focused on development and expansion of more efficient transit systems and transport development. More specifically it aimed at helping landlocked countries to become land-linked and air-linked.⁵

³ For the purpose of this paper, Asia-Pacific countries mean the member States of ESCAP. There are a total of 44 landlocked countries in the world, 32 of which are classified by the United Nations as landlocked developing countries (LLDCs), and 16 of which are classified as being least developed countries (LDCs). Among the 32 LLDCs, 15 are located in Africa, 12 in Asia, two in Latin America and four in Europe (UN-OHRLLS, 2015a). There are an additional three partially-recognized States that are landlocked including Kosovo, South Ossetia and Vatican City

⁴ The primary objective was to improve the integration of LLDCs into the global multilateral trading system by: (a) securing access to and from the sea by any transport means; (b) reducing trade costs and improving services to increase export competitiveness; (c) reducing import costs; (d) addressing delays and uncertainties in trade routes; (e) developing adequate national networks; (f) reducing loss, damage and deterioration of goods en route; (g) opening the way for export expansion; and (h) improving safety of road transport and security of people. The five priorities identified included: (a) policy improvements to reduce customs and bureaucracy fees as well as cutting costs and reducing travel delays for exports; (b) improved rail, road air and pipeline infrastructure projects; (c) preferential treatment to landlocked countries in order to make goods more competitive; (d) technical and financial assistance for infrastructure development and policy improvements in landlocked and transit countries; and (e) an annual review monitoring progress (United Nations-OHRLLS, 2015b).

⁵ The six main priority areas identified in the VPoA include: (a) fundamental transit policy issues; (b) infrastructure development and maintenance; (c) international trade and trade facilitation; (d) regional integration and cooperation; (e) structural economic transformation; and (f) means of implementation.

With the view that trade and regional integration are instrumental in enabling landlocked developing countries to achieve sustainable development, this paper looks at the trade performance of Asian LLDCs and attempts to identify the factors affecting the performance and inhibiting the integration of Asian LLDCs into global and regional economies. It also suggests key policy areas for improving trading prospects, and integration into global and regional markets and value chains. Section A evaluates the overall export performance and export structure of Asian LLDCs over time, and progress towards export diversification and economic complexity. Section B reviews the trade facilitation performance regarding trade costs as well as the current state of play. Section C proposes areas where proper trade-policy actions could be used to minimize the disadvantages of Asian LLDCs as well as enhance the integration of Asian LLDCs with regional and global economies. Section E concludes the paper by providing a summary of findings and policy recommendations for Asian LLDCs to be able to fully utilize their economic potential and achieve sustainable development (section E).

2. Trade structure and performance of Asian LLDCs

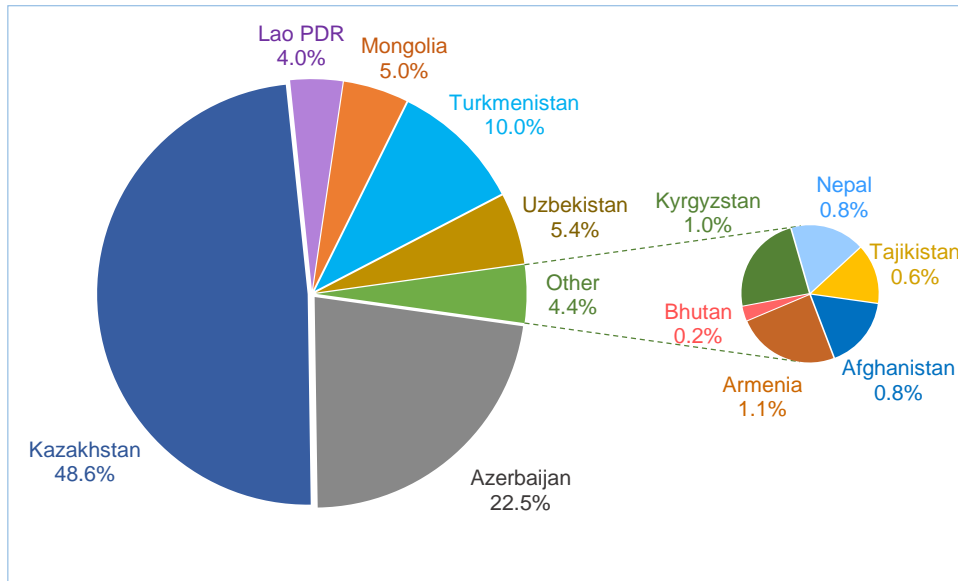
a. Export structure

The current exports of Asian LLDCs are dominated by the four fuel-exporting LLDCs – Kazakhstan, Azerbaijan, Turkmenistan and Uzbekistan – jointly accounting for 87% of the group's total exports in 2014 (figure 1).⁶

However, it is important to note that the export share of the majority of Asian LLDCs is small as they are not fuel-exporting economies. There is a stark difference between the export structures of the four fuel-exporting LLDCs and the other Asian LLDCs. Figure 2 shows that the export portfolio of the former group is highly concentrated in fuel, which accounted for around three-quarters of their total exports in 2014. In contrast, the latter group of Asian LLDCs have comparatively more diversified export portfolios with strong exports in primary commodities – especially minerals, fuel, wood and metals – jointly accounting for 65% of total exports. Nearly 70% of exports by the group are dominated by non-traditional mineral exporters, including Mongolia and the Lao PDR.

⁶ According to the United Nations (2015), fuel-exporting countries are defined as countries with a share of fuel exports in total exports that is at least 20% higher than total fuel imports. Fuels included coal, oil and natural gas.

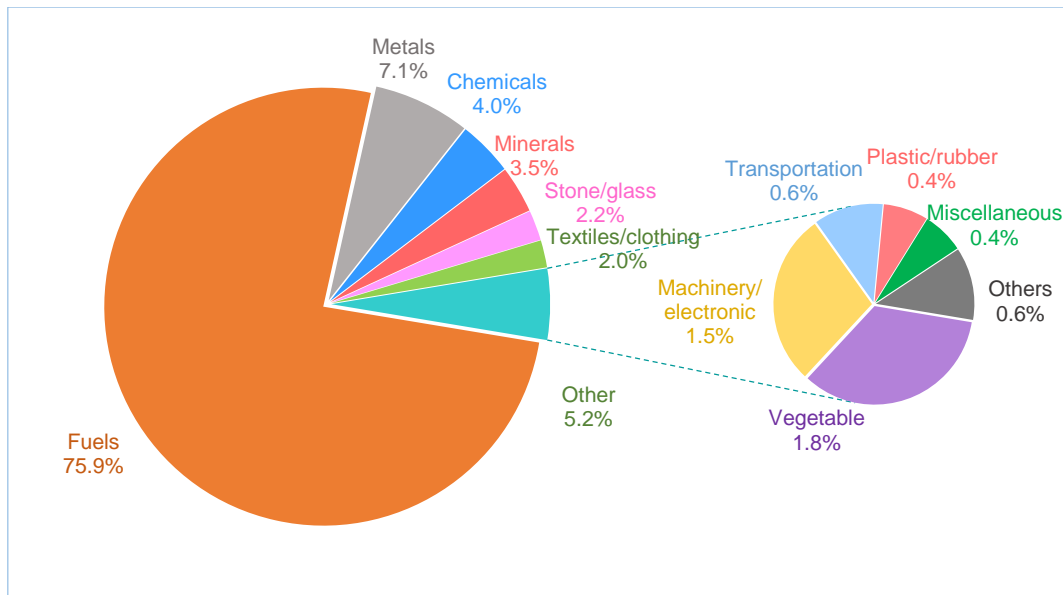
Figure 1. Export shares of Asian LLDCs, 2014



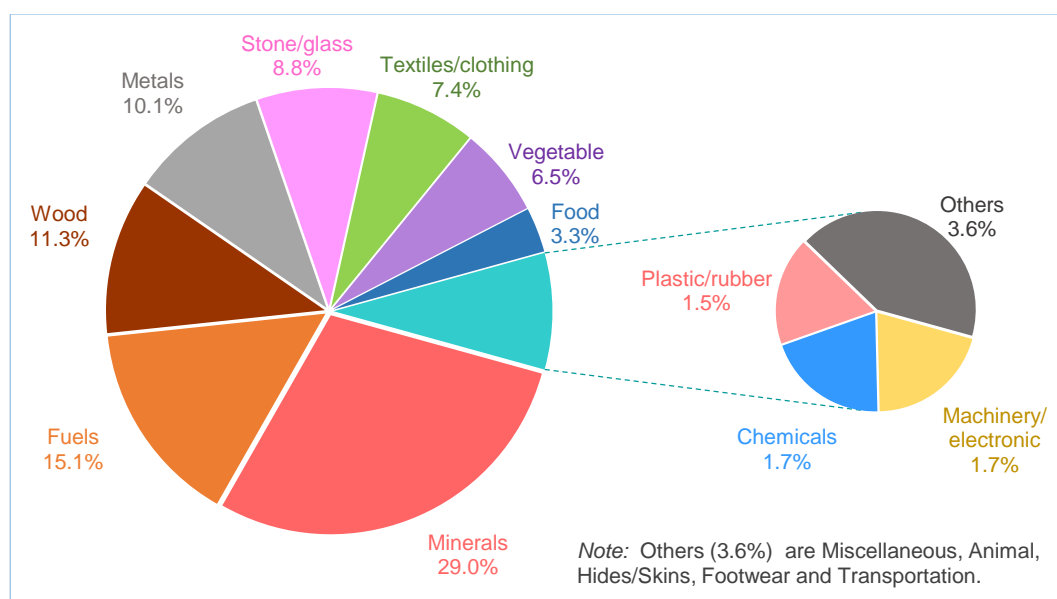
Source: Calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions database (in HS 1998/1992 classification, using total trade from the product tree; mirror data).

Figure 2. Export shares of fuel-exporting and other Asian LLDCs, 2014

(a) Fuel-exporting Asian LLDCs *



(b) Other Asian LLDCs **



Source: Calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions database (in HS 1998/1992 classification, using standard product groups from the product tree; mirror data).

Notes: * Fuel exporting Asian LLDCs include Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan.

** Other Asian LLDCs include Afghanistan, Armenia, Bhutan, Kyrgyzstan, the Lao PDR, Mongolia, Nepal and Tajikistan.

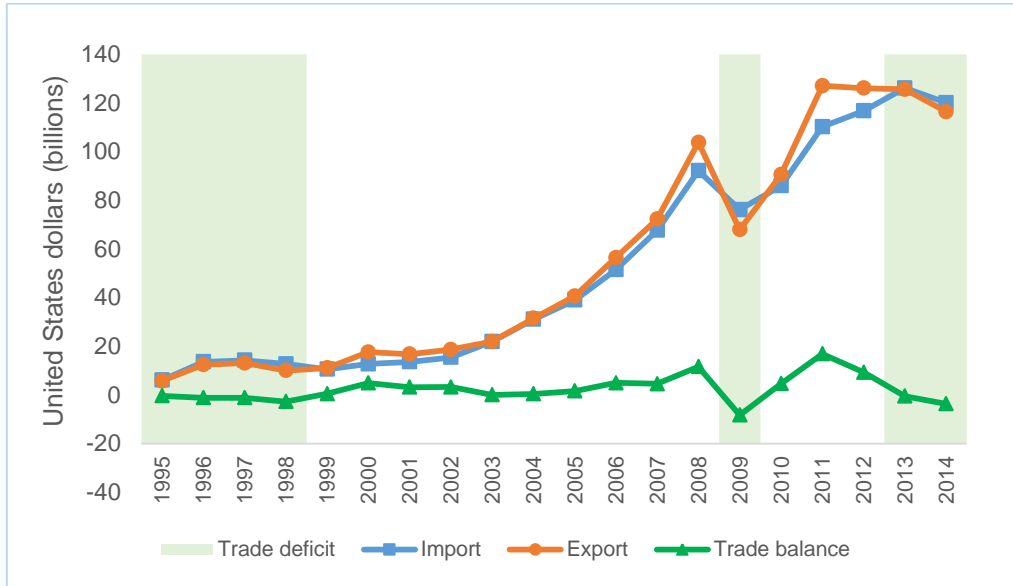
3. Trends in merchandise trade

Since the late 1990s until recently, Asian LLDCs have enjoyed dynamic export growth, driven by the boom in fuel and commodity prices. From 2000 until just prior to the 2008-2009 global trade crisis, exports across Asian LLDCs grew at an average annual growth rate of 36%. This export growth was substantially higher than the Asia-Pacific region overall, which averaged just 18% per year⁷. Although the crisis disrupted the rapid export growth of Asian LLDCs, with exports falling sharply by 35%, there was a sharp trade recovery during which export growth rates returned to pre-crisis levels (figure 3).

However, the situation has changed since the start of the slowdown of fuel prices in 2012. There was an export contraction by an average of 1% per year during 2011-2013. Led by falling fuel prices and weaker global demand, especially from China, commodity prices – especially for fuel and metals – drastically declined in 2014. In particular, the prices of copper, coal, iron ore and crude oil – a reflection of China's demand – fell by 6%, 14%, 31% and 58%, respectively, in the second half of 2014. Consequently, the trade situation of Asian LLDCs as a whole has gone from bad to worse with an export contraction of 7%.

⁷ Although the financial crisis disrupted the rapid export growth of Asian LLDCs, with exports falling sharply by 35%, there was a sharp trade recovery during which export growth rates.

Figure 3. Trends in merchandise trade and trade balance of Asian LLDCs, 1995-2014



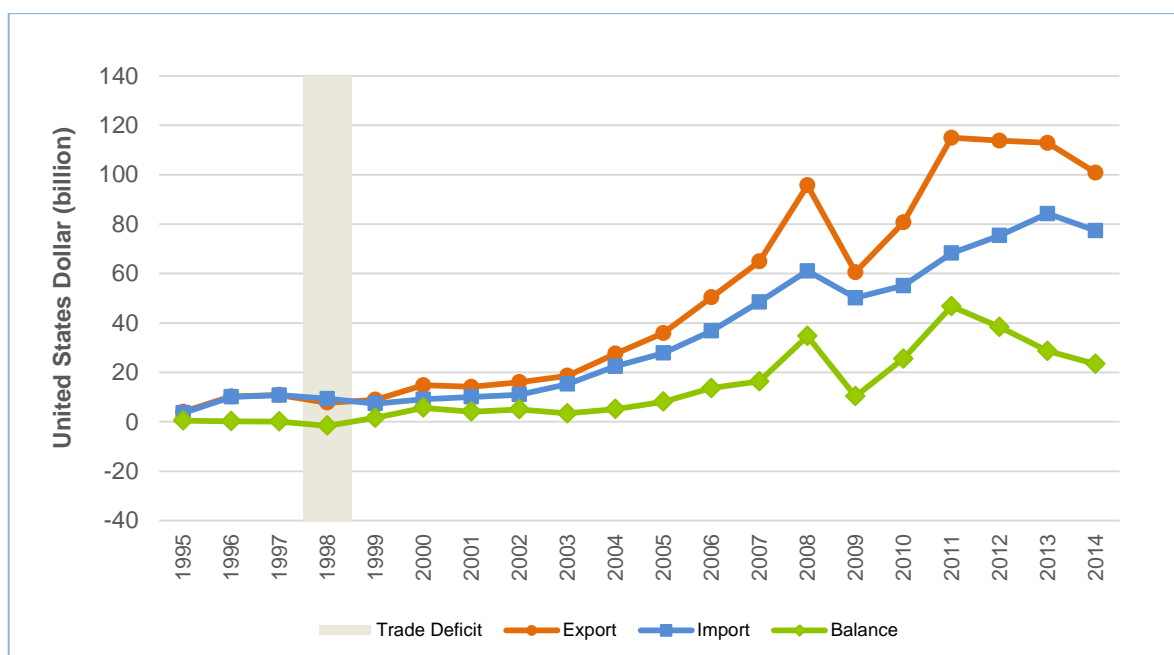
Source: Calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions database (in HS 1998/1992 classification, using total trade from the product tree; mirror data).

Note: The area highlighted in grey indicates periods associated with trade deficits (imports exceeding exports).

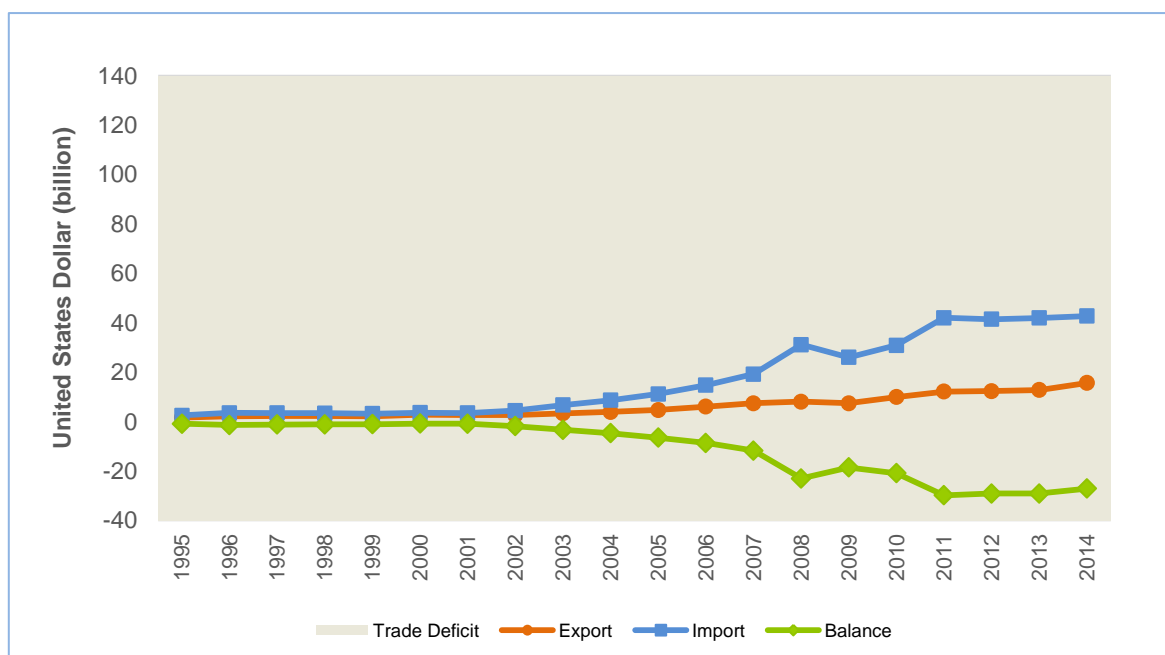
As trade performance of Asian LLDCs is dominated by four fuel exporting countries (Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan), which have captured more than 87% of the Asian LLDC group’s total exports, the aggregate performance indicated above conceals the stark difference between the performance of fuel- and non-fuel exporters in the group (figure 4). Except for a slight deficit in 1998, the fuel-exporting LLDCs have had a persistent trade surplus, which grew rapidly from US\$ 5.2 billion in 2004 to a peak of US\$ 46.7 billion in 2011. However, the high concentration of fuel exports has made the trade performance of the group sensitive to the falling demand for fuel, which led to a sharp trade surplus decline to US\$ 23.5 billion in 2014. In contrast, the non-fuel exporting LLDCs have suffered a persistent trade deficit that has increased due to growth in imports, especially fuel, until the falling of fuel price that started in 2012 resulted in a slight improvement in their trade deficits.

Figure 4. Trade performance between fuel- and non-fuel exports by Asian LLDCs, 1995-2014

a) LLDC fuel exporters



b) LLDC non-fuel exporters



Source: Calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions database (in HS 1998/1992 classification, using total trade from the product tree; mirror data).

Note: The area highlighted in grey indicates periods associated with trade deficits (imports exceeding exports).

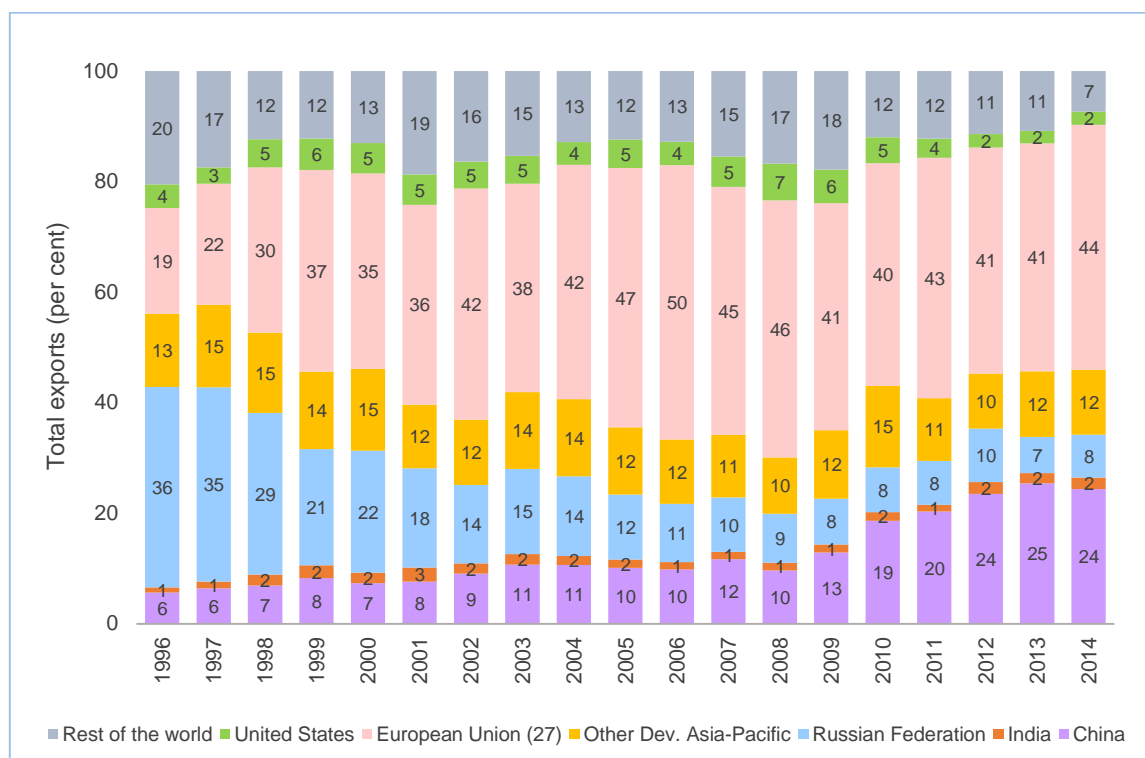
4. Trade partners

Generally, the intensity of bilateral trade relationships depends on distance, endowment differences, similarities in the level of economic development, and relationships with trading partners. For Asian LLDCs, the transportation costs, trade facilitation and fixed costs of entering new markets in international trade are significant for producers and firms in these economies. Therefore, the existing set of export partners of Asian LLDCs (48 countries) is much smaller than the developing Asia-Pacific average (65 markets). In addition, Asian LLDCs have little diversification in their export markets. Despite the recent economic slowdown in those regions, the European Union and China account nearly 70% of the total exports by Asian LLDCs (figure 5). The current structure of export markets is somewhat different from the past two decades when the former Soviet Union was the most important export destination for the group until its disintegration in the 1990s.

A major factor shaping the structure of export markets is the existing infrastructure for trade, especially the natural gas pipeline and inland transport network for exporting mineral resources. The traditional gas pipelines were built to convey natural gas to Europe and the Russian Federation; however, the latter was not well-maintained after the fall of the Soviet Union. Responding to the huge demand in China, the new pipeline to feed gas to that country has been in operation since 2009. In addition, the shares of India (and Pakistan) would potentially increase if the project to build gas pipelines to India was effectively implemented. The relatively robust growing commodity demand of China has made that country almost a sole export market for Mongolia (88%) and Turkmenistan (81%). China also holds a substantial share of commodity exports from Armenia (28%) and the Lao PDR (38%). The few exceptions are the cases of South Asian LLDCs where India is an important export market for Bhutan (82%) and Nepal (62%) while Pakistan is an important partner of Afghanistan (45%).

Despite its economic slowdown, China is expected to gain rising influence in the trade of Asian LLDCs. The growing hegemony of China in Asia has been effectively supported by its extensive investment in transport infrastructures in resource-rich countries. For example, China has built cross-border railways to help deliver coal from Mongolia to China. In 2013, China announced its support for 52 infrastructure projects in Kazakhstan worth US\$ 24 billion. Those investments are developing into a part of the “One Belt, One Road” project to build an inland transportation network to connect China - Central Asia - Eastern Europe – Western Europe and a sea transportation network to link China with South-East Asia – South Asia – Africa – Western Europe.

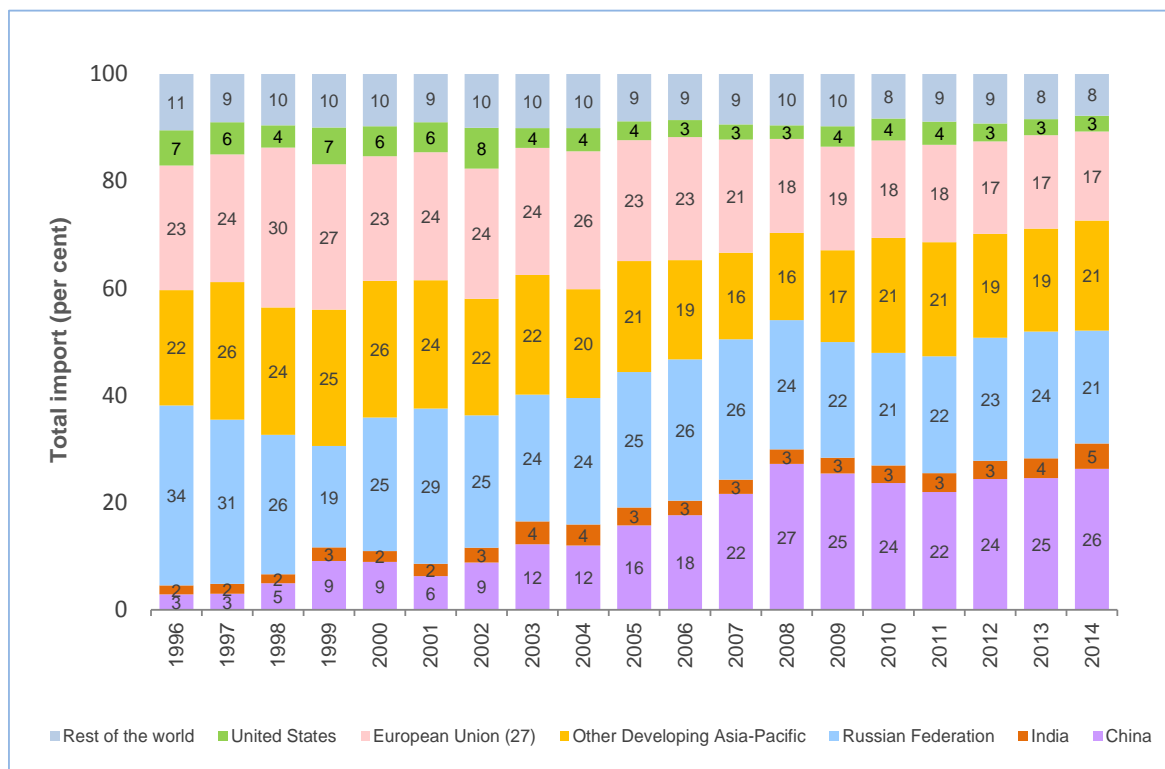
Figure 5. Destinations of exports from Asian LLDCs, 1996-2014



Source: Calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions database (in HS 1998/1992 classification, using standard product groups from the product tree; mirror data).

Similar to the global trend, China has become the most important source of imported goods for Asian LLDCs (figure 6). The share of imports from China has overtaken the share of the Russian Federation, formerly the traditional import source, since 2008. In 2014, more than a quarter of imports by Asian LLDCs came from China while the share of the Russian Federation decreased to 21%. Trade with countries in the European Union is much more on the export side than import side. In contrast, other developing Asian economies have been important import partners, especially the Republic of Korea (3.5%), India (5%), Thailand (3.6%) and Turkey (6%). In addition, about 3% of imports are sourced from Asian LLDCs, mainly Kazakhstan.

Figure 6. Import sources of Asian LLDCs, 1996-2014



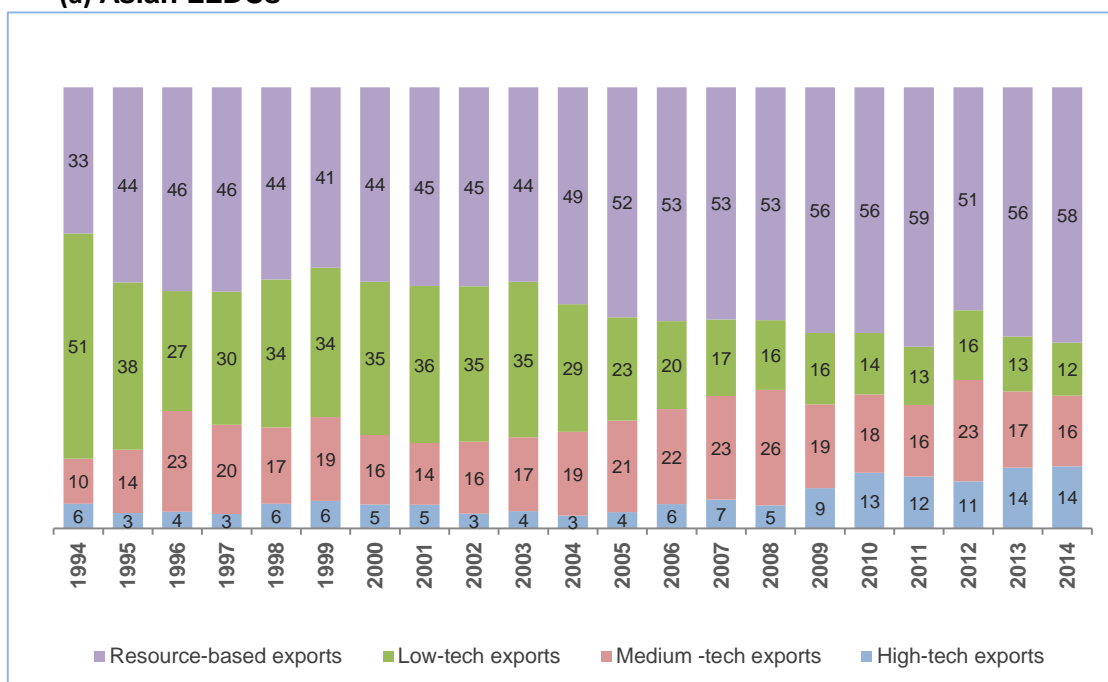
Source: Calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions database (in HS 1998/1992 classification, using standard product groups from the product tree; mirror data).

5. Technological complexity of exports

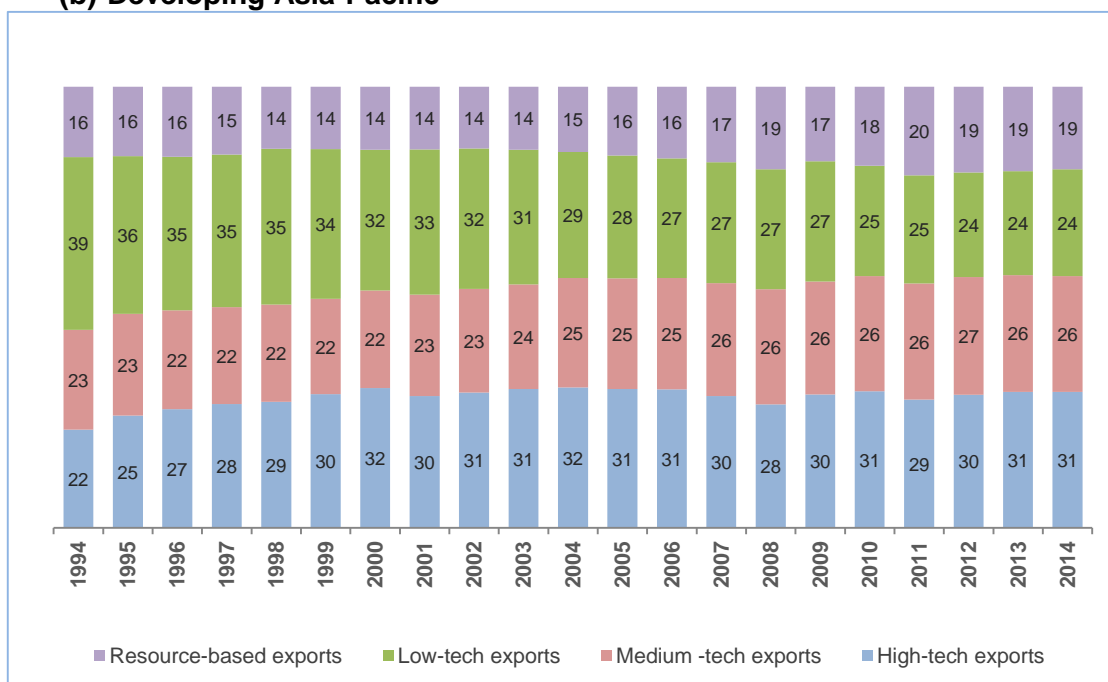
Based on the technological classification of international trade published by UNIDO (2015), figure 7 illustrates the fact that exports from Asian LLDCs have shifted towards resource-based exports, which increased their share from 33% in 1994 to 58% in 2014. The structural shift in exports is a reflection of the impact of rising commodity prices, which created incentives for fuel exports and mining projects in resource-rich LLDCs while becoming disincentives for traditional export sectors, i.e., largely low-technological exports of textiles and garments. These changes are not exclusive to fuel-exporting LLDCs. Country-level trade data show that non-fuel exporting LLDCs have turned to commodity exports, which are also classified as resource-based products. A different picture is found when comparing with other developing Asia-Pacific economies. While the share of resource-based exports from the group of developing Asia-Pacific economies was also rising due to the global boom in commodity prices, the increase was quite small. More of the structural changes were between shifting from low-tech sectors to other sectors having higher level of technological intensity.

Figure 7. Export structure of Asian LLDCs and the developing Asia-Pacific region by technological grouping (%)

(a) Asian LLDCs



(b) Developing Asia-Pacific

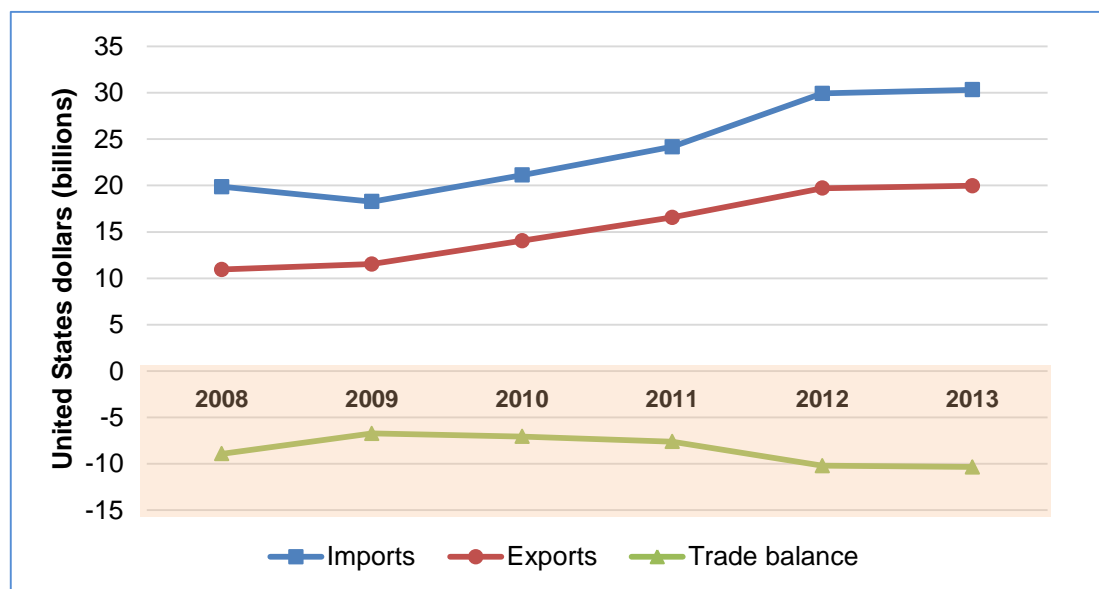


Source: Calculation based on United Nations COMTRADE data accessed through the World Bank World Integrated Trade Solutions database using the technological classification of exports based on UNIDO (2015); mirror data.

6. Trade in commercial services

Although Asian LLDCs play a negligible role in the regional trade in goods, they have been able to increase trade in commercial services faster than the developing Asia-Pacific economies on average, especially on the export side. Trade in commercial services by Asian LLDCs grew at annual average of 13% for exports and 9% for imports during the past five years (figure 8). This is faster than the growth of service exports and imports by developing Asia-Pacific economies, which expanded by 7% and 8.5%, respectively. However, the Asian LLDCs as a group accounts for less than 2% of commercial services trade by Asia and the Pacific, and they remain net importers.

Figure 8. Trends in commercial services trade and services trade balance of Asian LLDCs, 2008-2013

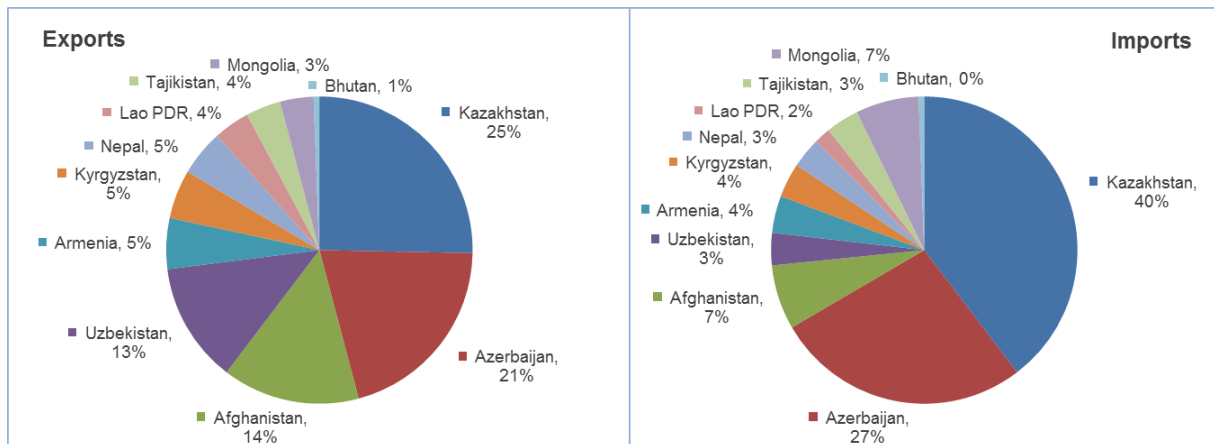


Source: Calculated for ESCAP using data from World Trade Organization (accessed February 2016).

Note: Services trade data for Turkmenistan are not available

Among many factors, the dynamic of the services sector depends on market size, the nature of economic activities and the quality of regulatory governance practiced when liberalizing services sectors (van der Marel, 2012). Given their relatively strong economic and trade performance compared to the group, it follows that fuel-exporting LLDCs, especially Kazakhstan and Azerbaijan, account for the major shares of services trade by Asian LLDCs (figure 9). However, a notable share of Afghanistan in services exports have been due to an increase in aid from foreign donor supported projects to reconstruct the economy and infrastructure.

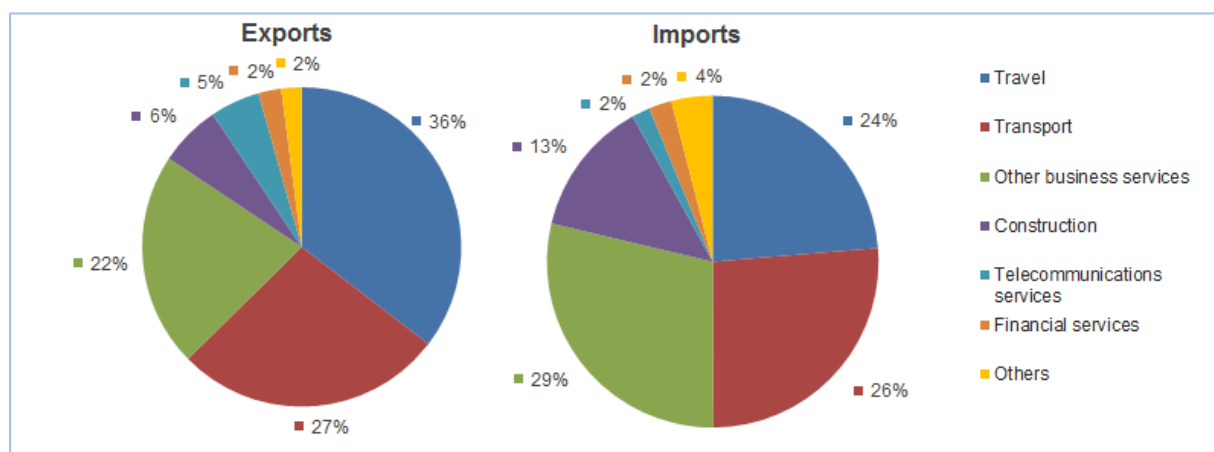
Figure 9. Shares in commercial services trade by Asian LLDCs, 2013



Source: Calculation based on data from the World Trade Organization (accessed February 2016).
 Note: Data for Turkmenistan are not available.

Major services subsectors in Asian LLDCs are travel and transport services (figure 10).⁹ Travel services are a typical major services export from developing economies that are relatively lacking in skilled labour, including Asian LLDCs. Travel services are especially important exports for small LLDCs, including the Lao PDR (78% share of services exports), Bhutan (67%), Azerbaijan (58%), Kyrgyzstan (52%), Nepal (45%, and Armenia (43%). Transport services account for more than 26% of services trade by Asian LLDCs. The main reason for the significant share is that transport services are particularly important for conveying fuel and mineral goods from LLDCs to foreign markets. In the case of Kazakhstan and Mongolia, in particular, transport services account for more than 56% and 32% of their services exports. The relatively high share of transport services exports reflect that a significant part services

Figure 10. Commercial services trade structure of Asian LLDCs, 2013



Source: Calculation based on data from World Trade Organization (accessed February 2016).
 Note: Sectoral data for Turkmenistan and Uzbekistan are not available.

⁹ Other business services, of which exports and imports account for 22% and 29%, respectively, is a large category that includes many services that support business activities.

7. Cost of trade for Asian LLDCs

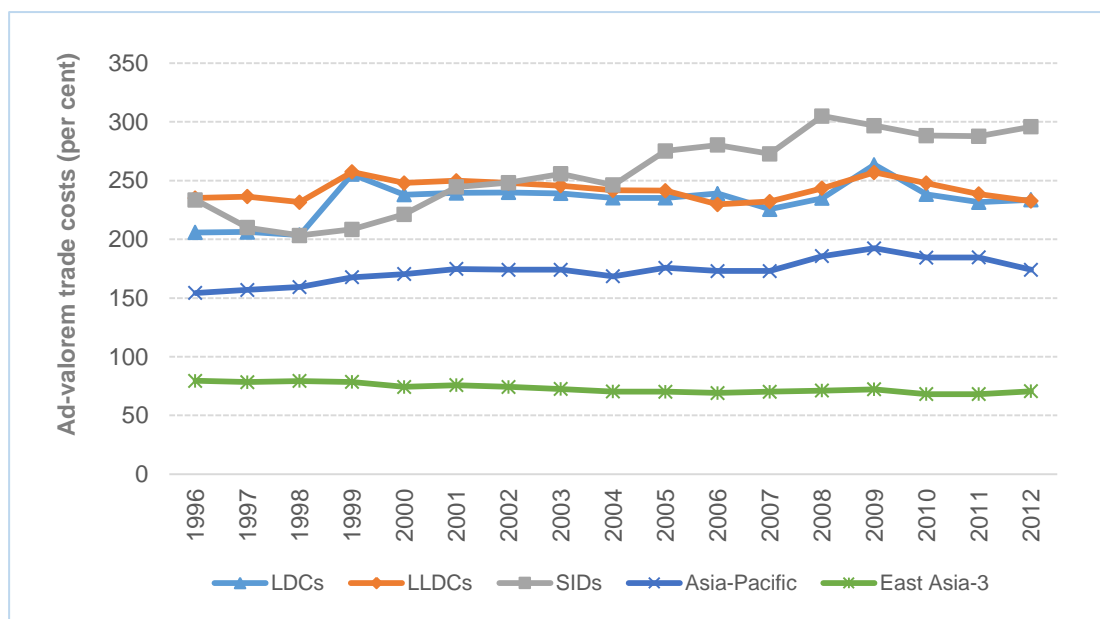
Landlocked countries typically face higher costs of trade compared with coastal neighbours, which reduces opportunities for trade, and hampers economic growth and development prospects. Understanding the sources of higher trade costs is therefore critical to helping landlocked countries to overcome development disadvantages.

a. Trend in trade costs

Using data on bilateral trade costs from the ESCAP-World Bank Trade Cost database, figure 11 shows the trade costs of LLDCs being substantially higher than those of the Asia-Pacific region as a whole – around one-third higher.¹⁰ Although the trade costs of Asian LLDCs appear to have fallen in recent years (2010-2012), they continue to remain high compared with other groups. Due to the geographic isolation of Small Island Developing States (SIDS), they have substantially higher trade costs compared with Asian LLDCs.

¹⁰ The ESCAP-World Bank Trade Cost Database provides annual estimates of trade costs across 178 developed and developing countries, during 1995-2012. The systematic bilateral trade costs are computed using the inverse gravity model (Novy, 2013), which estimates trade costs using data on bilateral trade and gross national output as inputs. The trade costs are comprehensive in that they encompass all costs involved in trading internationally with another partner (i.e., beyond the national border), relative to those involved with trading intra-nationally (i.e., domestically). This includes both observed and unobserved trade costs. The comprehensive trade costs discussed in this section are highly aggregated measures of trade facilitation performance, and can vary substantially depending on trading partners or the types of goods traded. The trade costs are presented in ad valorem equivalents (i.e., they are expressed as a proportion of the estimated value of the good concerned). The interpretation of trade costs is as follows: trade costs are inferred as higher when countries trade more domestically than they do internationally, and lower when they trade more internationally than they do domestically. This is because if trade costs vis-à-vis another country fall, then some of the production that was consumed domestically will be shipped overseas. Trade costs for the Asia-Pacific region and East Asia-3 are included as benchmarks for comparison, alongside those of LDCs and SIDS.

Figure 11. Trade costs of selected Asia-Pacific groups with large developed economies, 1996 -2012

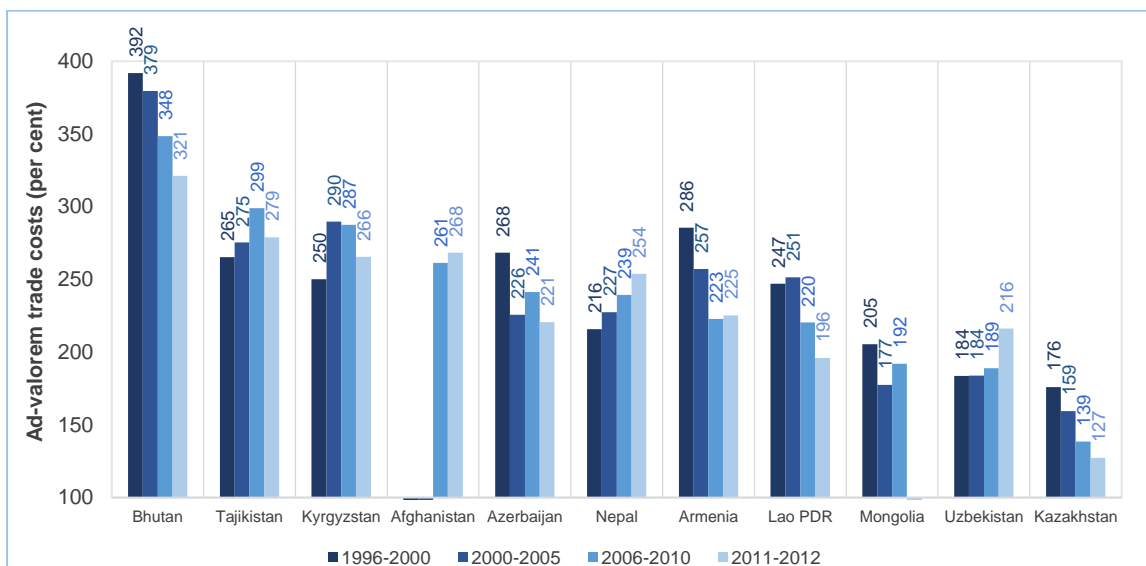


Source: Calculation based on data from the ESCAP-World Bank Trade Costs Database (accessed December 2015).

Notes: Trade costs are tariff equivalents calculated as trade-weighted average trade costs of countries in each country aggregate group with the three largest developed economies (Germany, Japan and the United States).

Although Asian LLDCs as a group have managed to reduce trade costs in recent years, the progress made by individual countries is highly unequal. Figure 12 shows the trade costs of individual Asian LLDCs with large developing country markets during the five-year periods of 1996-2000, 2001-2005, 2006-2010 and 2011-2012. Greater heterogeneity is observed in the trade facilitation performance of Asian LLDCs at the country level. The highest trade costs are observed in Bhutan, Tajikistan and Kyrgyzstan while the lowest trade costs are observed in Mongolia, Uzbekistan and Kazakhstan.

Figure 12. Trade costs of Asian LLDCs with large developed economies, 1996-2012



Source: Calculation based on data from the ESCAP-World Bank Trade Costs Database (accessed December 2015).

Notes: Trade costs are tariff equivalents calculated as trade-weighted average trade costs of countries in each country aggregate group with the three largest developed economies (Germany, Japan and the United States).

b. Types and sources of trade costs

A number of factors contribute to high trade costs of a landlocked developing country. Overall, they can be defined within three broad categories: tariff trade costs; natural trade costs; and policy-related, non-tariff trade costs. Tariff trade costs comprise tariffs imposed upon imported goods and services. The second category – natural trade costs – is inherent in the location, culture and/or history of the source country and trading partners. These factors are typically more difficult to address through policy in the short-to-medium term. The natural trade costs include geographical factors such as sharing a common land border (i.e., contiguity), access to the sea (or landlockedness) and the geographical distance from trading partners (i.e., remoteness). They also include factors that broadly measure the cultural and historical distances between trading nations. This includes: the use of a common language (both official and unofficial); having formerly been the same country (i.e., India and Pakistan); and having formerly been in a colonial relationship (Duval, Saggi and Utoktham, 2015).

The third category – policy-related, non-tariff trade costs – are trade costs that can potentially be reduced through policy-related measures because they have endogenous causes. They include, but are not limited to: (a) direct behind- and at-the-border trade costs; (b) the availability and use of information communication technology (ICT) services; (c) the business regulatory environment; international supply chain connectivity; (d) exchange rate movements; and (e) other non-tariff measures (NTMs) such as sanitary and phytosanitary (SPS) measures (i.e., the application and compliance with food safety, animal and plant health measures as set out in WTO rules), and technical barriers to trade (TBT), including technical regulations and voluntary standards.

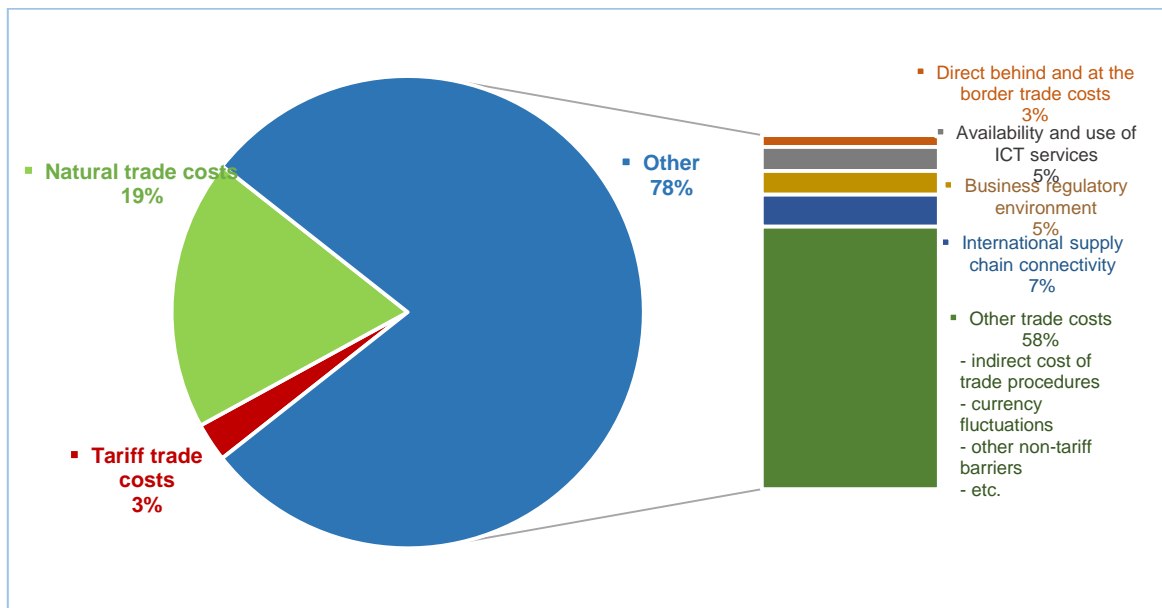
As the sources of trade costs can be multifarious and highly complex, policymakers find it challenging to determine which sources of trade costs to address and the manner in which trade facilitation measures should be prioritized – especially for landlocked countries where the cost of trade is a prescient issue. A recent study by Duval and Utoktham (2015) set out to measure the contribution of different – predefined – factors to trade costs across

countries. Figure 13 illustrates the estimated contribution of each of these factors to trade costs. The estimates reveal that just 2%-3% of bilateral trade costs are accounted for by tariffs. This finding is revealing because much of the focus of policymakers in the region over the past decade has been on reducing tariff trade costs. Natural trade costs are also shown to vary substantially, depending on partner countries considered; however, they generally accounted for 20%-21% of bilateral trade costs. The study conceded that natural trade costs for landlocked countries were, in many cases, substantially higher. However, the study indicated that much of non-tariff trade costs, some 75%, are fixable by policy.

There is great potential for policy-related, non-tariff trade costs to be minimized through trade facilitation measures. International liner shipping connectivity was found to be the largest source of trade costs within this category, accounting for around 2%-8% of trade costs across countries. As landlocked countries lack access to the sea, they are limited in their scope for developing maritime services and related port infrastructure. This means that in addition to improving the inland trade facilitation infrastructure of their own, Asian LLDCs will have to rely on infrastructure and a good relationship with transit countries.

The business regulatory environment was found to be the second-most important source of policy-related, non-tariff trade costs – explaining around 3%-6% of trade costs across countries, with the credit indicator accounting for around half of this effect. This suggests that countries – including landlocked countries – could reduce trade costs by improving availability and access to credit as well as improving the business climate for trade. Access and use of ICT – the third-most important policy-related, non-tariff trade cost – was found to explain around 2%-6% of trade costs across countries. This suggests that countries – especially landlocked countries – could reduce trade costs by directing policy measures towards improving ICT infrastructure and services as well as through increasing use of ICT through education.

Figure 13. Sources of trade costs, 2014



Source: Based on Duval and Utoktham, 2015.

Note: This illustration is based on a casual observation of the data only. Natural trade costs for landlocked countries may be outside of the range shown in the figure.

Trade costs in LLDCs may also be higher because landlocked countries are more dependent on adjacent countries for transit of goods, and therefore may be subject to monopoly pricing as well as uncertain changes in policy.

8. Policy-related costs in Asian LLDCs

As pointed out in the previous section, natural factors explain only part of the high trade cost of LLDCs. This section looks into what policies can offset the handicap of location. It focuses on the policy gaps hampering connectivity and integration of LLDCs into the global and regional economies.

a. Tariffs

Tariffs can directly raise the costs of imports including raw materials and imported inputs for production and exports. Thus, tariffs can hamper trade by Asian LLDCs, both on the import and the export side, as implied by Lerner's symmetry theorem.¹¹ The schemes for tariff redemption or exemption in export processing zones, if they exist, may reduce the effective rate of tariffs; however, the costs of procedures and delays will add to total trade cost. This study found that, in general, tariffs may not be a major issue in trade costs of Asian LLDCs. In line with global trends, average MFN applied tariffs in Asian LLDCs and non-LLDCs are substantially lower compared with previous years. This is due not only to unilateral liberalization efforts as countries adopt more trade-oriented development strategies, but also to multilateral liberalization efforts such as accession to WTO (ESCAP, 2015).

¹¹ The Lerner's symmetry theorem assumes that international trade depends on relative prices in the exporting and importing countries. However, trade restriction in the form of an export tax or import tax distorts prices and has a symmetric impact on overall trade.

Average MFN applied tariffs across Asian LLDCs (8.8%) are slightly higher than other developing Asia-Pacific economies (8.2%). However, these aggregate figures conceal substantial variation across economies and sectors (table 1). There is a dichotomy between the relatively liberalized trade regimes of Armenia, Kyrgyzstan, Mongolia, Turkmenistan and Afghanistan, and the highly protectionist trade regimes of Bhutan, Uzbekistan, Nepal and the Lao PDR. Nevertheless, all Asian LLDCs still have room to make further tariff reductions, especially tariffs imposed on agricultural goods.

b. Non-tariff measures

While tariffs are decreasing globally, countries rely on other protectionist measures, often in the form of NTMs. These are non-tariff restrictions that result from prohibitions, conditions or specific requirements and consequently increase the difficulty and/or costs associated with importing and exporting. They frequently, although not exclusively, include SPS and TBT measures. NTMs vary substantially by sector and country; however, the food and agricultural sectors tend to have a higher concentration of SPS measures. In contrast, TBT measures are not concentrated in several sectors but apply to most industries, especially manufactured and electronic products.

Using data on the export baskets of Asia-Pacific economies and ad valorem equivalence (AVE) of NTMs, as defined by Cadot and others (2015), we assess the extent to which Asian LLDCs are exposed to trade restrictions, in terms of SPS and TBT, compared to other Asia-Pacific countries (Heal and Palmioli, 2015).

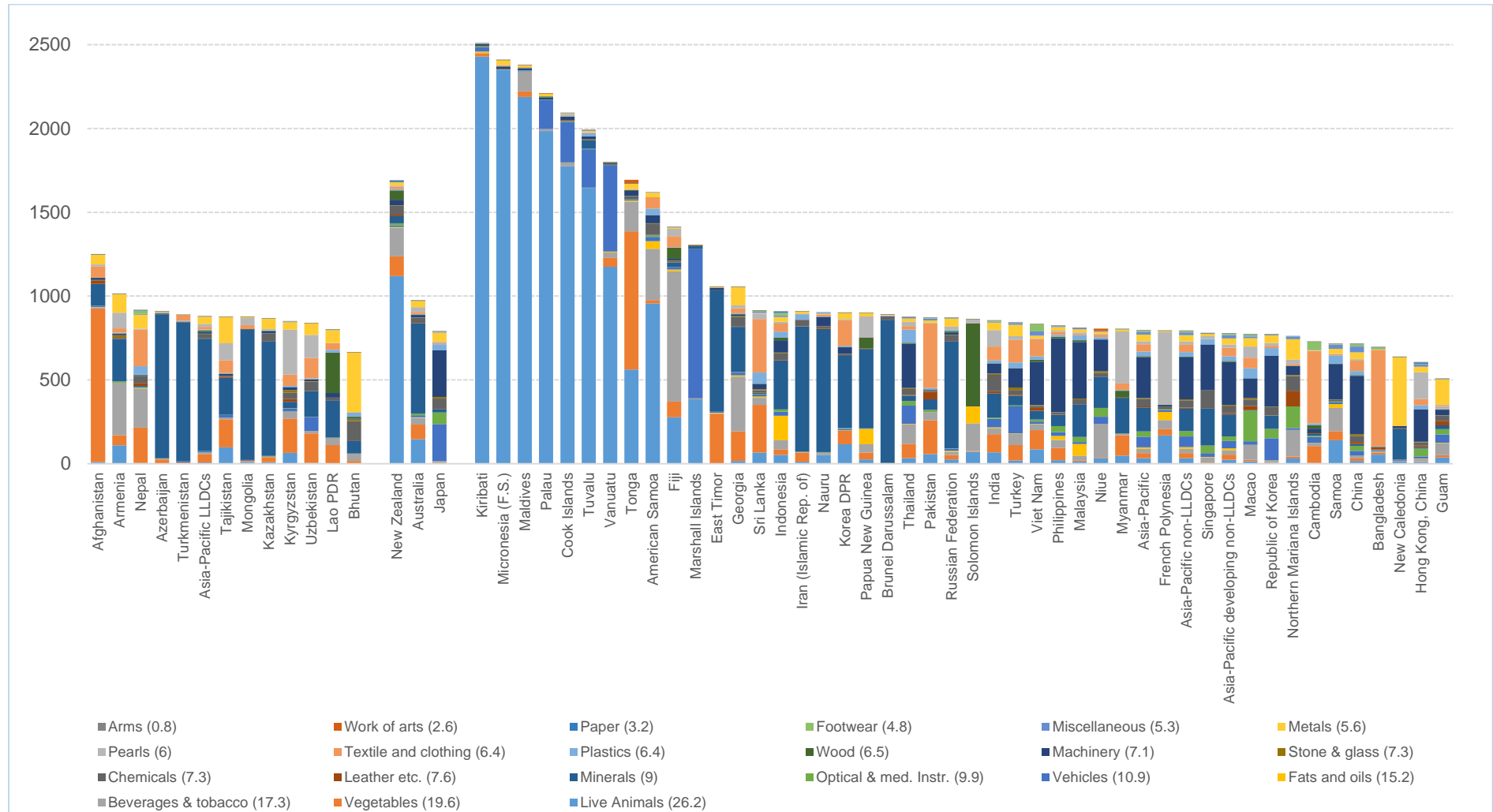
Based on the fact that primary agriculture products, such as live animals and vegetables, are exposed to NTMs more than other products, food and agriculture exporting countries are likely to be at higher risk. Although some producers can comply with such requirements, they can be difficult for other producers – especially SMEs in developing countries – to implement fully. The index reveals that, among Asian LLDCs, Afghanistan potentially has the greatest exposure due to their high export concentration in food products (figure 14).

Table 1. MFN-applied tariffs, 2014

	Simple average			
	Total	Petroleum	Industrial	Agriculture
Asian LLDCs				
Bhutan	21.9	20.0	18.9	41.4
Uzbekistan	13.9	16.7	13.4	17.4
Nepal	12.0	23.5	12.0	12.1
Lao PDR	10.0	12.8	8.3	20.1
Azerbaijan	8.8	10.4	8.2	12.8
Average Asian LLDCs	8.8	9.4	8.1	13.4
Kazakhstan	7.6	4.4	7.5	8.1
Tajikistan	7.5	5.0	7.2	9.3
Afghanistan	5.9	8.6	5.7	7.1
Turkmenistan	5.1	0	3.9	13.2
Mongolia	5.0	5.0	5.0	5.1
Kyrgyzstan	4.5	2.0	4.2	7.1
Armenia	3.7	0	3.2	7.0
Developed Asia-Pacific				
Japan	3.1	0.9	2.5	7.0
Australia	2.7	0	2.9	1.1
New Zealand	2.0	0.5	2.2	1.4
Average developed Asia-Pacific	2.6	0.5	2.5	3.2
Other developing Asia-Pacific (non-LLDCs)				
Iran (Islamic Rep.)	26.6	6.8	26.1	30.4
Maldives	20.4	21.5	20.7	18.1
Bangladesh	14.0	15.7	13.5	16.9
Pakistan	13.4	10.9	13.2	14.9
India	13.3	4.9	9.7	33.5
Republic of Korea	12.2	4.4	6.8	45.8
Tonga	11.7	4.0	11.8	11.0
Cambodia	11.2	12.5	10.6	14.9
Samoa	11.2	8.8	10.8	13.6
Turkey	10.8	2.5	5.5	42.5
Thailand	10.7	8.0	8.2	30.4
Fiji	10.1	5.0	9.9	11.5
Viet Nam	9.5	11.9	8.4	16.4
China	9.4	4.5	8.5	14.4
French Polynesia	9.2	6.5	9.8	5.6
Sri Lanka	8.4	8.5	6.7	19.6
Tuvalu	7.7	1.1	7.8	7.5
Russian Federation	7.6	4.4	7.5	8.1
Indonesia	6.7	0.3	6.9	5.3
Philippines	6.3	1.0	5.7	9.9
Myanmar	5.6	1.7	5.1	8.6
Malaysia	5.0	0.5	5.5	1.8
Papua New Guinea	4.4	0	3.4	10.9
Palau	3.0	3.0	3.0	2.9
Timor-Leste	2.5	2.5	2.5	2.5
Georgia	1.4	0	0.7	5.7
Brunei Darussalam	1.1	0	1.3	0
Cook Islands	0.6	0.3	0.4	2.3
Hong Kong, China	0	0	0	0
Macao, China	0	0	0	0
Singapore	0	0	0	0
Average other developing Asia-Pacific	8.2	4.9	7.5	12.9

Source: ESCAP calculation based on data from the TRAINS database accessed through the World Integrated Trade Solutions website (accessed December 2015).

Figure 14. Estimated exposure of exports by Asia-Pacific economies to non-tariff measures



Sources: ESCAP calculation based on data from the World Bank WITS database (accessed December 2015) and ad valorem equivalent non-tariff measure estimates from Cadot and others, 2015.

9. Services trade restrictions

In addition to the reasons related to geographical difficulties, high trade costs in LLDCs may be related to the concentrated market structure in linking services such as transport and communications. The lack of competition allows existing operators to charge high prices without matching the quality of services. As indicated by Arvis and others. (2007), the high transportation costs in LLDCs are mainly due to rent-seeking behaviour in the trucking market.

Trade restrictions in transport and telecommunication services comprise one of the factors that create the high cost of linking services in Asian LLDCs. Based on the World Bank's Services Trade Restriction Index (STRI), calculations using available data on Asian LLDCs appear to support this argument. This study found that Asian LLDCs use higher service trade restrictions than developing Asia-Pacific countries on average (table 2). When it comes to linking services, the STRI shows that Mongolia and Nepal have relatively high trade restrictiveness. Telecommunication services are highly restricted in Nepal and Uzbekistan.¹² The findings, in general, are consistent with the results based on the survey by Brochert and others (2012) as they show that landlocked countries have a greater tendency to restrict trade in transport and communications than non-landlocked countries.

Multiple factors explain the concentrated market structure of transport and telecommunication services in Asian LLDCs. Small domestic markets might serve as a starting point for a monopoly or duopoly market structure in linking services sectors such as aviation and telecommunications services. This situation is reinforced by misguided policies undermining competition. For example, Asian LLDCs typically have a strong tendency to grant exclusive licences, and often try to shield incumbent state-owned enterprises from competition. In the Lao PDR, for example, the Government-owned airline, Lao Aviation, has a quasi-monopoly on the domestic air transport market, and the only competition comes from a privately-owned helicopter-charter service, which is only allowed to operate the flights reaching remote areas. Brochert and others (2012) also found that landlocked countries tended to (a) be less transparent in making licensing criteria publicly available, and (b) impose more stringent limits on foreign ownership.

¹² Nepal has higher trade restrictions than other Asian LLDCs in all services except financial services.

Table 2. Services Trade Restriction Index for selected economies

	Financial	Professional	Retail	Telecoms	Transport	Overall
Armenia	2.6	32	0	0	25	11.4
Mongolia	5.2	28	0	0	41.6	13.7
Kazakhstan	22.1	28	0	25	16.4	17
Uzbekistan	24.6	31.5	0	50	32	23.4
Nepal	23.2	76	25	50	56	42.9
Asian LLDCs	15.5	39.1	5.0	25.0	34.2	21.7
Developed Asia-Pacific	14.0	38.0	8.3	29.2	11.2	18.2
Developing Asia-Pacific	29.3	54.3	19.3	34.1	38.3	34.0

	STRI index is between 50 or higher,
	Between 30 and 50,
	Between 20 and 30,
	Between 10 and 20,
	Between 0 and 10.

Source: Based on the World Bank STRI database, available at <http://iresearch.worldbank.org/servicetrade/>.

Note: Data are not available for other Asian LLDCs.

10. Integration with the global and regional economies

To overcome the hurdles associated with being landlocked, it is critical for countries to engage in international cooperation efforts instead of acting unilaterally. Engaging in international cooperation is important in several aspects for the economies in the Asia-Pacific region. First, demanding commitments under regional or multilateral trade liberalization may sometimes help to overcome entrenched domestic interests. Second, engaging in multilateral and regional cooperation enables LLDCs to better address the externality arising from other policies (by countries providing transit or of final destination). WTO would be a natural platform for multilateral negotiations. Accession to WTO is also potentially important, especially for landlocked countries, because it introduces broad outlines and best endeavour clauses for transit agreements. Third, regional agreements may also help to overcome obstacles for regional connectivity. Bilateral agreements with adjacent countries are critical to dealing with bilateral problems, including cross-border trade.

a. Accession to WTO

Seven Asian LLDCs are now members of WTO: Armenia (2003); Kazakhstan (2015); Kyrgyzstan (1998); the Lao PDR (2013); Mongolia (1997); Nepal (2004); and Tajikistan (2013). With the exception of Turkmenistan, the other LLDCs in the region are WTO observers and are at different stages of progress in acceding to WTO.¹³

Kazakhstan is the most recent country to accede to WTO (November 2015) and has committed fully to all WTO provisions with recourse to transitioning periods for telecommunications, banking and insurance. As part of the accession process, it has concluded 29 bilateral market access agreements on goods and 15 bilateral market access agreements on services. It has agreed to bind export duties for 370 tariffs lines, of which 55

¹³ The observer Governments must start accession negotiations within five years of becoming observers.

are at zero per cent, with an average bound tariff of 6.1%. It has committed to join the Information Technology Agreement, and will accede to the Government Procurement Agenda within four years. Kazakhstan has also made specific commitments on 10 service sectors in the areas of telecommunications, insurance, banking, transport, tourism and distribution.

Afghanistan has completed its accession negotiations and adopted the accession package referendum. In December 2015, Afghanistan's accession to WTO was formally approved. The country is likely to benefit from technical assistance provided by the international community. In contrast, Bhutan's Working Party (established in 1999) and Uzbekistan's Working Party (established in 1994) have made very little progress on WTO accession. The most recent meetings took place in 2007 and 2005, respectively. Turkmenistan has yet to even join WTO as an observer State.

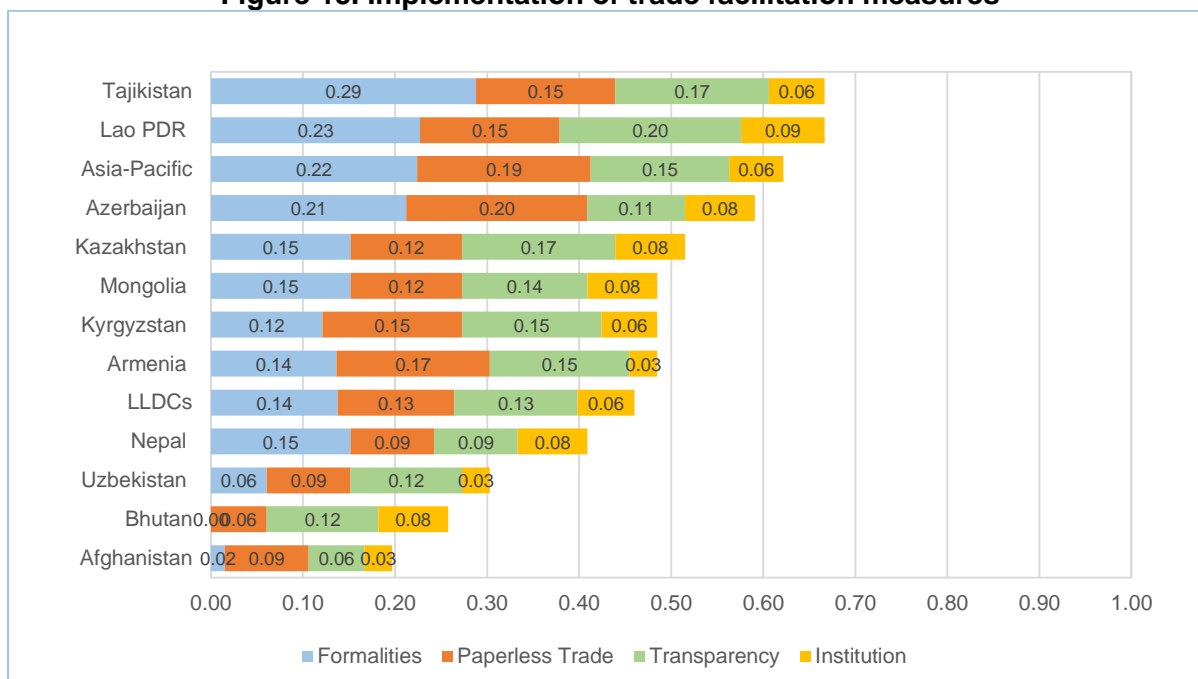
b. Implementation of the WTO Trade Facilitation Agreement and paperless trade

Recognizing the importance of trade facilitation, many Asian LLDCs now have a concrete timeline or at least an initial plan for implementing trade facilitation measures. The successful completion of negotiations on the WTO Trade Facilitation Agreement (TFA) on 7 December 2013 in Bali, Indonesia has provided further impetus for those Asian LLDCs that are already WTO members to accelerate implementation of trade facilitation measures.

In addition to facilitating WTO accession by Asian LLDCs, these countries could benefit substantially from fuller implementation of the TFA, which will enter force once two-thirds of members have completed their domestic ratification process. The WTO TFA provides an excellent basis for developing countries, and especially the Asian LLDCs, to reduce trade transaction costs through a variety of measures aimed at making import, export and transit procedures more transparent and efficient. Trade facilitation and the streamlining of import, export and transit procedures, in general, are essential to sustained and inclusive growth, in particular through enabling participation by SMEs in regional and global production networks. It is also expected that with the implementation of the WTO TFA, a consensus will be reached on other issues of Doha round so that there could be a greater opportunity to gain market access due to reductions in tariffs and barriers to services trade.

The United Nations Regional Commissions Global Trade Facilitation and Paperless Trade Implementation Survey 2015 revealed that many Asian LLDCs are lagging behind the region in the implementation of trade facilitation measures (figure 15). Singapore and Japan rank among the top in terms of trade facilitation implementation (97%, based on the survey). The Asia-Pacific region ranks at 62% implementation while Asian LLDCs rank at 46% implementation. The implementation of trade facilitation reforms by Tajikistan and the Lao PDR are higher than the Asia-Pacific average; however, all others are below average. Nepal, Uzbekistan, Bhutan and Afghanistan have among the lowest implementation scores in the world, and rank even lower than the average of Asian LLDCs. The Lao PDR has some of the most sophisticated trade portals in the region. Although Nepal and Bhutan have made more concrete efforts to establish trade and transport facilitation monitoring mechanisms, they continue to lag behind the region. Azerbaijan has been one of the most proactive countries in the region, in applying information and communications technology as well as trade and customs procedures to facilitate trade and border crossing.

Figure 15. Implementation of trade facilitation measures



Source: ESCAP's calculation based on data from the United Nations Regional Commissions Global Trade Facilitation and Paperless Trade Implementation Survey 2015.

c. Non-reciprocal preferential market access

With the exception of those holding least developed country status, Asian LLDCs are treated at par with other developing countries in terms of receiving unilateral preferential tariff treatment under the Generalized System of Preferences (GSP) from developed economies and some developing economies (table 3). Armenia, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan and Uzbekistan are among the countries receiving additional tariff concessions (GSP plus) from the European Union on the basis that they have ratified and effectively implemented key international conventions in the fields of human rights, labour standards, sustainable development and good governance. In addition, the four Asian LLDCs also receive the duty-free quota-free (DFQF) market access from the developed countries as well as from Brazil, China, India and the Republic of Korea.¹⁴

Based on a quick review of concessions, it would appear that the potential benefit from the GSP schemes might be limited for Asian LLDCs for several possible reasons: (a) in most cases the tariffs are not eliminated on all the products: (b) the product coverage under GSP is not substantial; and (c) the Rules of Origin (RoO) under GSP are more stringent and complex. Another aspect relates to the graduation clause in GSP whereby a developing country can either graduate itself, or its high export sectors or products might graduate from GSP concessions. On the other hand, the DFQF of developed countries (except for the United States) offer market access on up to 97% of total products and thus grant better market access to least developed countries. However, the actual utilization of market

¹⁴ The coverage, the benefits, and the restrictiveness of rules of origin vary across donors. The comparison is beyond the scope of this paper. Readers who are interested in the issue can look in the UNCTAD Handbooks on GSP and DFQF schemes for details. The handbooks are available by donor country from <http://unctad.org/en/Pages/DITC/GSP/Handbooks-on-the-GSP-schemes.aspx>, http://unctad.org/en/Docs/aldc20084_en.pdf, and http://unctad.org/en/PublicationsLibrary/aldc2009d3_en.pdf

access under the DFQF regime could be much less due to stringent RoO requirements and remaining non-tariff barriers faced by LDCs.

In addition, in many cases of Asian LLDCs, they do not receive non-reciprocal preferential market access from their principal export partners. Except for the case of Bhutan and Nepal, which benefit from DFQF access to Indian market, the share of exports by other Asian LLDCs to countries granting preferential market access is low to medium, ranging between 6.8% of total exports (Azerbaijan) and 55.7% (Uzbekistan). This also holds true for the Lao PDR and Afghanistan where the DFQF definitely do not cover their exports to a major export partner such as Thailand and Pakistan. Furthermore, the GSP schemes sometimes do not cover the main export products of Asian LLDCs. For example, exports by Uzbekistan might not benefit much from the preferential access, given that textiles and clothing, important exports for the country with an export share of 19% in 2014, are excluded from most GSP schemes.

Those factors force the Asian LLDCs as well as other countries to go for reciprocal agreements especially with their major trade partners. There is no graduation clause in PTAs and the RoO are negotiated. Currently, most Asian LLDCs have, or at least are negotiating, preferential agreements with the countries that are their major export markets and do not give them GSP. For example, Azerbaijan is negotiating an FTA with the European Union, which is its principal export market and does not grant GSP (66% of Azerbaijan's exports are to the European Union). Kyrgyzstan and Tajikistan are not granted GSP by Kazakhstan but they have multiple and overlapping preferential trade agreements (exports from Kyrgyzstan and Tajikistan to Kazakhstan range from 25% to 29%).¹⁵ Similarly, while Armenia, Kazakhstan and Uzbekistan do not receive GSP from the Russian Federation, they have trade agreements and the Russian Federation accounted for 25%, 13%, and 14% of their total exports, respectively, in 2014.

Since the PTAs are reciprocal in nature; the participating countries have to make corresponding concessions in exchange for the preferential market access. Still, there might be advantages for negotiating PTAs. The advantages could be in the form of ensuring that their major export items are given duty-free treatment in PTAs and the RoO are so formulated that they can be complied with for making preferential exports. Another aspect of these negotiations is group dynamics. Some of the LLDCs are part of already existing regional groupings (ASEAN) and therefore have to go along with the majority view of the group to negotiate PTAs with new partners, even if the benefit that they may be currently getting under the DFQF of those partners could be eroded by this process. In addition, the recent agreements are more comprehensive in nature, covering issues beyond WTO and thus presenting more policy and adjustment challenges. In that sense, these are even GSP or DFQF plus, since the GSP or DFQF only cover tariff concessions on goods. A more detailed analysis of comparing the reciprocal and unilateral agreements will be necessary to make a real assessment of whether there are benefits from these agreements or not.

¹⁵ These include plurilateral agreements such as the Common Wealth Independent States FTA, the Eurasian Economic Union, EAEC, ECOPTA, and a bilateral FTA between Kazakhstan and Kyrgyzstan

Table 3. Non-reciprocal market access schemes offered to Asian LLDCs

		LLDCs								LDCs & LLDCs			
		Armenia	Azerbaijan	Kazakhstan	Kyrgyzstan	Mongolia	Tajikistan	Turkmenistan	Uzbekistan	Afghanistan	Bhutan	Lao PDR	Nepal
GSP Donors	Australia					GSP				DFQF	DFQF	DFQF	DFQF
	Belarus					GSP				GSP	GSP	GSP	GSP
	Canada	GSP			GSP	GSP	GSP	GSP	GSP	DFQF	DFQF	DFQF	DFQF
	European Union	GSP+			GSP+	GSP+	GSP+	GSP+	GSP+	DFQF	DFQF	DFQF	DFQF
	Iceland									DFQF	DFQF	DFQF	DFQF
	Japan	GSP	GSP	GSP	GSP	GSP	GSP	GSP	GSP	DFQF	DFQF	DFQF	DFQF
	Kazakhstan					GSP				GSP	GSP	GSP	GSP
	New Zealand					GSP				DFQF	DFQF	DFQF	DFQF
	Norway	GSP+	GSP	GSP	GSP	GSP+	GSP	GSP+	GSP	DFQF	DFQF	DFQF	DFQF
	Russian Federation					GSP				GSP	GSP	GSP	GSP
	Switzerland	GSP	GSP	GSP	GSP	GSP	GSP	GSP	GSP	DFQF	DFQF	DFQF	DFQF
	Turkey		GSP	GSP	GSP	GSP	GSP	GSP	GSP	DFQF	DFQF	DFQF	DFQF
	United States	GSP	GSP	GSP	GSP	GSP			GSP	DFQF	DFQF	DFQF	DFQF
DFQF Donors	Brazil									DFQF	DFQF	DFQF	DFQF
	China									DFQF	DFQF	DFQF	DFQF
	India									DFQF	DFQF	DFQF	DFQF
	Republic of Korea									DFQF	DFQF	DFQF	DFQF
Share of exports to donors		40.4	6.8	33.3	49.4	10.6	55.1	15.4	55.7	50.1	95.3	50.4	97.3
		<div style="display: flex; justify-content: space-between; font-size: small;"> <div style="width: 20px; height: 10px; background-color: #c6e0b4; border: 1px solid black;"></div> Having an FTA <div style="width: 20px; height: 10px; background-color: #ffffcc; border: 1px solid black;"></div> Having a partial scope agreement <div style="width: 20px; height: 10px; background-color: #cccccc; border: 1px solid black;"></div> Negotiating an FTA </div>											

Source: The lists of GSP and DFQF beneficiaries from UNCTAD, data on trade agreements from APTIAD, and calculation using trade data from United Nations COMTRADE downloaded from WITS.

Note: Based on latest data available at the time of preparing the report. Export share is based on merchandise trade data in 2014.

d. Market access through preferential trade agreements and other agreements

Asian LLDCs have increasingly been entering into PTAs with other developing and transition economies in Asia and the Pacific. According to the Asia-Pacific Trade and Investment Agreements Database (APTIAD), although five of the LLDCs are not WTO members, they all belong to one or more PTAs or other agreements (table 4).¹⁶ Mongolia, a member of WTO, and previously not a party to any reciprocal PTAs, has now signed a bilateral economic partnership agreement with Japan and has acceded to the Asia-Pacific Trade Agreement (APTA).

¹⁶ According to APTIAD, the total number of agreements involving economies of the Asia-Pacific region is estimated to be well above 240 (155 in force) as of the end of 2015. More information is available at www.unescap.org/TIID/aptiad/.

Table 4. Participation of LLDCs in preferential trade agreements, and trade coverage under PTAs, 2015

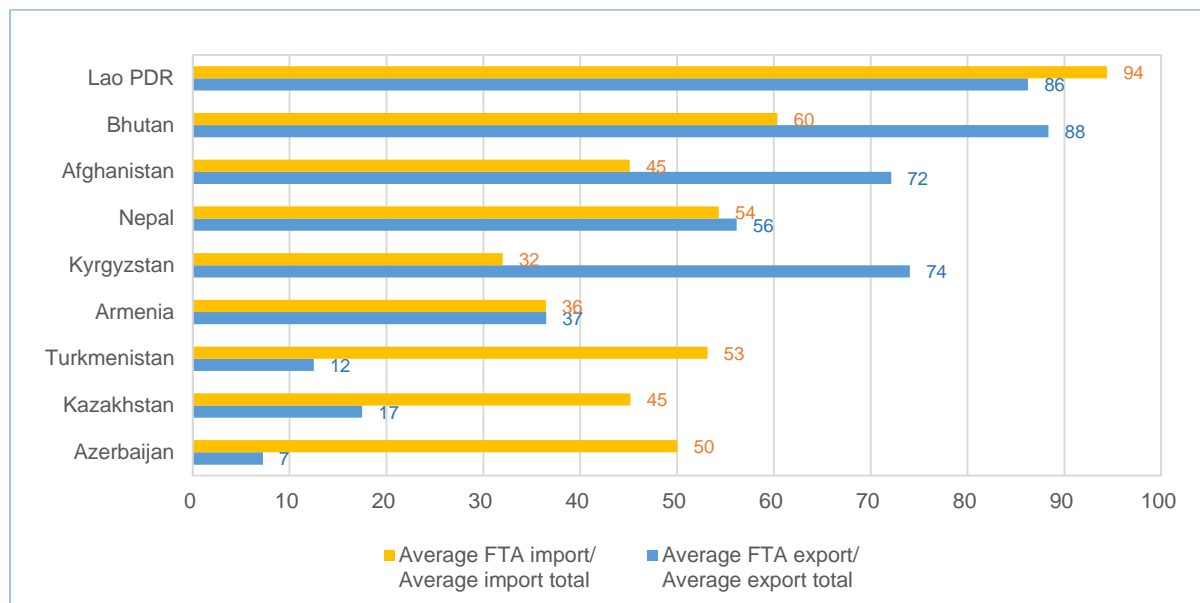
Country	Number of PTAs
Afghanistan	Three – India, ECOTA, SAFTA.
Armenia	Ten – Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine ,CISFTA and EAEU.
Azerbaijan	Ten – Georgia, Kazakhstan, Moldova, Russian Federation, Turkmenistan, Ukraine, Uzbekistan, CIS, ECOPTA and GUAM..
Bhutan	Two – India and SAFTA.
Kazakhstan	Fourteen – Armenia, Azerbaijan, Georgia, Kyrgyzstan, Russian Federation, Russian Federation and Belarus, Ukraine, Uzbekistan; CEZ, CISFTA, EAEC, ECOPTA and EAEU..
Kyrgyzstan	Eleven – Armenia, Kazakhstan, Moldova, Russian Federation, Tajikistan, Ukraine, Uzbekistan, CISFTA, EAEC, ECOPTA and EAEU.
Lao PDR	Eight – Thailand, (AFTA, ASEAN-New Zealand-Australia, ASEAN-China, ASEAN-India, ASEAN-Republic of Korea, ASEAN-Japan and APTA.
Mongolia	One – APTA.
Nepal	Two – India and SAFTA.
Tajikistan	Eight – Armenia, Tajikistan, Belarus, Ukraine, Uzbekistan, CISFTA, EAEC and ECOPTA.
Turkmenistan	Seven – Armenia, Azerbaijan, Georgia, Russian Federation, Ukraine, CIS and ECOPTA.
Uzbekistan	Nine – Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation, Uzbekistan, Ukraine, CIS and ECOPTA.

Source: ESCAP calculation based on data from the Asia-Pacific Trade and Investment Agreement Database (accessed December 2015).

There are, however, major differences between how much of the total national exports and imports are captured by trade with partners in these agreements. At the high end of the spectrum are Bhutan and the Lao PDR, which trade essentially with their immediate neighbours, India and Thailand, respectively. At the other end of the spectrum, for example, less than 10% of national exports are directed to partner countries in the signed PTAs in the case of Azerbaijan, and about 17% in the case of Turkmenistan (figure 16).

Figure 16. Shares of exports and imports with PTA partners in 2014

(Unit: Percentage)



Source: ESCAP calculation based on data from the Asia-Pacific Trade and Investment Agreements Database (accessed December 2015).

It is also worth noticing that, with the exception of Azerbaijan, the Lao PDR, Kazakhstan and Turkmenistan, other LLDCs have positive trade balances with their PTA partners. However, this indicator should be interpreted with caution as the trade data used to show trade balance cover all tariff lines, including trade in items that are not covered by a PTA (sensitive list or negative list items). This is because the data on preferential trade are not available.

11. Summary and the way forward

Landlocked countries typically face significant and persistent challenges to growth and development. Tracking the trade performance of Asian LLDCs reveals that they appear to get stuck in the low-value added segment of industrialization despite having a decade of rapid economic and export growth. Trade barriers and trade restrictions, lack of infrastructure and poor trade facilitation performance are among the reasons for high trade costs in Asian LLDCs in addition to the geographical disadvantages. As those factors are related to policies, reforms in the right direction could mitigate economic challenges facing Asian LLDCs.

Tariffs and NTBs together are a significant element in trade cost. This includes but is not exclusive to trade barriers imposed by LLDCs themselves. Therefore, one of the important policy implications is that for Asian LLDCs to become better connected with the global and regional economy, they should ensure an open trade environment in goods as well as services.

With regard to tariff regimes of Asian LLDCs, there is an interesting dichotomy between the relatively liberalized regimes of Armenia, Kyrgyzstan, Mongolia, Turkmenistan and

Afghanistan and the highly protectionist regimes of Bhutan, Uzbekistan, Nepal and the Lao PDR. Unilateral tariff reduction is a low-hanging fruit for trade liberalization for Asian LLDCs as well as many of other developing economies. In general, tariffs imposed by Asian LLDCs are relatively higher on agriculture than on industrial goods. Those import tariffs could be as harmful as export tax, especially to Asian LLDCs. In addition to affecting food consumers, the tariffs could also raise the costs of raw materials and inputs for production as well as exports such as agricultural processing and textiles industries, which appear to be the most possible entry of Asian LLDCs to global value chains. On the other hand, agricultural and food exports from Asian LLDCs are at risk of being exposed to NTBs unless they have the capacity to comply with standards and requirements under SPS and TBT in the export markets.

The importance of service liberalization should not be overlooked. Costs and efficiency of services such as transport services and telecommunication services play a critical role in reducing the cost of moving goods and people to and from Asian LLDCs. Based on the data on the STRI that are available for only some countries, trade restrictiveness in transport services is much higher in Mongolia and Nepal compared to the average of developing Asia-Pacific economies. Similarly, trade in communications services is highly restricted in Nepal and Uzbekistan. In fact, Nepal is among the most restrictive in the region in terms of trade in services. Therefore, liberalization of those services is expected to substantially improve logistic performance in those countries. In addition, it will provide positive consequences for (a) their tourism industry, which is the most important service export from Asian LLDCs, (b) strong backward and forward linkages with local SMEs and (c) impacts on job creation.

In addition to those unilateral actions, Asian LLDCs should seek opportunities to engage in global and regional cooperation efforts. Engaging in regional and multilateral negotiations will allow Asian LLDCs to address the direct and indirect impacts on them from the policies of other countries; this will ensure that their export interest items are given duty-free treatment in PTAs and that RoO are so formulated that they can be complied with in making preferential exports. In addition, the recent agreements are more comprehensive in nature covering issues beyond WTO, thus provide much broader scope than tariff concessions on goods.

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