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Regional implementation of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024

Note by the secretariat

Summary

In the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 regional and subregional organizations, governing bodies of the United Nations system entities and international organizations were invited to mainstream the Vienna Programme of Action into their respective programmes of work. The present document provides a summary of the progress made and challenges encountered in implementing the Vienna Programme of Action by the 12 landlocked developing countries of the Asian and Pacific region.

In 2016, the 12 Asia-Pacific landlocked developing countries continued implementing policies aimed at achieving sustainable development. However, external and internal factors constrained their ability to overcome developmental challenges related to the priority areas listed in the Vienna Programme of Action. Despite some progress, Asia-Pacific landlocked developing countries remain among the most vulnerable countries in the region owing to their geographical location and the limited diversification of their national economies. The economic transformation of 9 of the region’s 12 landlocked developing countries from a centrally planned economy to a market economy adds to their vulnerability, just as the continuing uncertainty in global trade and investment flows and relatively low commodity prices have exacerbated their developmental predicament.

The Commission may wish to provide guidance to the secretariat on assisting the Asia-Pacific landlocked developing countries to implement the Vienna Programme of Action. It may wish to provide guidance on strategies that are required to accelerate the process of structural transformation and may wish to suggest that the secretariat strengthen capacities in landlocked developing countries to develop appropriate policy responses that address their special development needs.

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I. Introduction

1. The 12 landlocked developing countries in the Asia-Pacific region[1] have continued to make efforts towards achieving inclusive growth and sustainable development since the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 was adopted in November 2014.[2] However, despite some progress, they remain among the most vulnerable countries in the region, owing to various factors, such as their geographical location, low level of development and the limited diversification of their national economies. At the time of writing, 9 out of the 12 landlocked developing countries are undergoing economic transformation from a model based on central planning to a model based on the free market. The transition adds to their vulnerability as it impedes the effectiveness of State institutions. Moreover, the continuing uncertainty in global trade and investment flows and low commodity prices have compounded development challenges in landlocked developing countries. Consequently, economic growth in most of them has remained tepid, with declining export earnings, rising unemployment, falling remittances, rapid currency depreciations and widening socioeconomic inequalities.

2. The Vienna Programme of Action is specifically designed to mobilize national, regional and international action in support of the development efforts of the landlocked developing countries, focusing on six interrelated priority areas: (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.

3. The present document, issued by the secretariat of the Economic and Social Commission for Asia and the Pacific (ESCAP), provides an overview of the progress made and challenges encountered by the 12 landlocked developing countries of the Asian and Pacific region in implementing the Vienna Programme of Action. The document is divided into seven sections. After the introductory part in section I, section II includes an examination of fundamental transit policy issues, encompassing landlocked developing countries' accession to legal frameworks, international agreements, regional agreements and bilateral agreements. Section III provides a look into the status of infrastructure development and maintenance. Evidence suggests that landlocked developing countries continue to struggle with both the extent as well as the quality of infrastructure – roads, railways, land ports, energy, and information and communications technology (ICT) infrastructure – and there is need for significantly enhanced investment in all these forms of infrastructure and their maintenance. Section IV presents data and information on the current status of the landlocked developing countries' intraregional and interregional trade patterns and a discussion on what measures can be taken to improve these countries' participation in regional and global trade flows. Section V includes a discussion on regional integration initiatives and subregional transport facilitation agreements relating to transit and landlocked countries that support regional integration and cooperation. Section VI highlights the nature of the economic structures of landlocked developing countries, which are significantly dependent on a narrow range of products for economic activity and export earnings, thereby accentuating their vulnerability to external shocks. Section VII focuses on the

[1] Afghanistan; Armenia; Azerbaijan; Bhutan; Kazakhstan; Kyrgyzstan; Lao People's Democratic Republic; Mongolia; Nepal; Tajikistan; Turkmenistan; and Uzbekistan.

[2] General Assembly resolution 69/137, annex II.

means of implementation and underscores the challenges landlocked developing countries face in financing their infrastructure investment needs. It presents the current status of official development assistance (ODA), foreign direct investment (FDI) and remittance flows to these countries. The final section offers some concluding remarks on advancing the implementation of the Vienna Programme of Action.

II. Priority 1: fundamental transit policy issues

4. Lack of territorial access to sea, long distances and remoteness from global markets generate high transport costs and thus hamper the development efforts of the landlocked developing countries in the region. Their effective participation in international trade and use of cross-border transport systems therefore critically depend on transport through neighbouring countries, which underlies the importance of addressing fundamental transit policy issues in a comprehensive and integrated manner. Recognizing that numerous physical and non-physical barriers pose a significant challenge for the landlocked developing countries in transporting their goods across borders and over land, in the Vienna Programme of Action concerted action for adopting and implementing concrete transit policies towards eliminating or mitigating these barriers was called for.

5. Landlocked developing countries recognize that accession to international conventions, multilateral agreements and subregional frameworks is vitally important in addressing transit policy issues. Nevertheless, a complex set of legal, institutional and cross-border challenges have continued to hamper transit transport and the cross-border movement of goods and services. These challenges include different sets of legal frameworks, weak coordination among regulatory authorities, poorly coordinated border management and/or single window arrangements, and shortage of trained personnel and skilled professionals in managing the implementation of the conventions and agreements. At border points, additional challenges need to be taken into account, including cumbersome and large numbers of documents, absence of appropriate guarantee and risk management systems, lack of data harmonization among border services, frequent inspections by different agencies, incompatible technical standards, including vehicle weights and dimensions, complicated insurance arrangements for vehicles, high charges for entry and exit or transit, different traffic regulations, restrictions on the use of domestic routes and operations by foreign carriers, inflexible and restrictive visa requirements for drivers and crews, different working hours at border crossing points, different locations of various control stations and excessively high cash (bond) deposits for the transit of goods.

6. Available information indicates that 9 of the 12 landlocked developing countries in the region have acceded to the Customs Convention on the International Transport of Goods under Cover of TIR Carnets and the International Convention on the Harmonization of Frontier Controls of Goods. Eight have acceded to the Convention on the Contract for the International Carriage of Goods by Road and the Convention on Road Traffic. Landlocked developing countries in the region have also found the revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures increasingly useful in harmonizing customs procedures.

7. Moreover, five of the landlocked developing countries in the region have ratified the Intergovernmental Agreement on Dry Ports, which came into force in April 2016; three countries are members of the Eurasian Economic Union (established in January 2015). For Kazakhstan and

Kyrgyzstan, this membership enables easier access to the Russian Federation as a transit country.

8. Accession to the World Trade Organization (WTO) is equally important to the landlocked developing countries. So far, eight landlocked developing countries have acceded to WTO, while three enjoy observer status. Turkmenistan is the only landlocked developing country which is yet to present its candidature to WTO.

III. Priority 2: infrastructure development and maintenance

9. The Vienna Programme of Action accords high priority to infrastructure development and maintenance, which is at the heart of landlocked developing countries' productive capacity development and their ability to take part in the international trading system and attract foreign capital, including FDI.

10. The secretariat has created an index that measures access to physical infrastructure across 104 countries.[3] The ranking of landlocked developing countries in this index shows that access to physical infrastructure is best in Kazakhstan and worst in Afghanistan (see table 1). It is important to note that access to physical infrastructure improved across all landlocked developing countries in the region between the two periods (2007-2009 and 2013-2015). Yet, different speeds of improvements across countries explain changes in the relative ranking across landlocked developing countries.

Table 1
Ranking of the landlocked developing countries in access to physical infrastructure

Country	*2007-2009*	*2013-2015*
Kazakhstan	1	1
Azerbaijan	4	2
Armenia	3	3
Kyrgyzstan	5	4
Uzbekistan	2	5
Tajikistan	6	6
Turkmenistan	7	7
Bhutan	8	8
Mongolia	10	9
Lao People's Democratic Republic	11	10
Nepal	9	11
Afghanistan	12	12

[3] The index comprises indicators that measure access to transport, energy, information and communications technology, and water and sanitation infrastructure. See E/ESCAP/73/5 for more details; the full methodology is available in ESCAP, *Asia-Pacific Countries with Special Needs Development Report 2017* (forthcoming).

11. Some recent successful examples of Central Asian landlocked developing countries' efforts to develop their transport infrastructure include the 75-km single-rail link connecting Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Another 205-km railway link is being built from Sangan, Islamic Republic of Iran, to Herat, Afghanistan. In December 2014, a rail link covering 926 km was completed, which connected Kazakhstan, Turkmenistan and the Islamic Republic of Iran. The Government of Armenia has started the construction of the North-South Road Corridor with an investment outlay of $1.5 billion. Azerbaijan is modernizing and upgrading Asian Highway 81, connecting its cities Hajigabul, Bahramtapa, Horadiz and Minjivan to the Armenian border. It has also started several road projects involving new construction, rehabilitation and upgrading Asian Highway 5 (East-West Baku Alat-Qazakh-Georgia border). The completion of a 105-km line section between Kars, Turkey, and Akhalkalaki, Georgia, promises to improve Azerbaijan's access to the Mediterranean Sea, especially to some of the ports in Turkey.

12. Moreover, it is important to acknowledge the contribution of China to transport infrastructure development in the landlocked developing countries, particularly in Central Asia. Thus, China and Kyrgyzstan are building a route at an estimated cost of some $4 billion that will provide access for Central Asian landlocked developing countries through China to the sea. Kazakhstan is improving its part of the Central Asia Regional Economic Cooperation corridor linking Western Europe with the western part of China (the Almaty-Khorghos road section) at an estimated cost of $1.26 billion. In addition, a Centre South Road Corridor is being planned in Kazakhstan, at an estimated investment cost of $2.56 billion, as is the Almaty ring road at an investment cost of $680 million. Several projects are being undertaken by Mongolia to improve domestic as well as cross-border connectivity with its neighbouring countries, including the construction of roads along Asian Highway 4 and the Millennium road, the latter aligning itself with Asian Highway 32. Another notable project which is at the planning stage is the Trans-Mongolia rail extension at an investment cost of $1.3 billion. Tajikistan has constructed or improved some 1,650 km of highways, improving its connectivity with border points in China, Kyrgyzstan and Uzbekistan. Several other projects will be completed by 2025 within the frameworks of the Asian Highway network, the Central Asia Regional Economic Cooperation Programme, the Eurasian Economic Union and the Transport Corridor Europe-Caucasus-Asia. In South-East Asia, a 400-km railway line connecting China to the Lao People's Democratic Republic rail will be built as part of China's China-Indochina Peninsula Economic Corridor; the aim is eventually to connect this line to Thailand, Malaysia and Singapore. In South Asia, Bhutan is working to connect with towns and cities in India. Nepal is also planning to build a 917-km east-west corridor with options for linking its cities with those of India.

13. Two important transport/economic corridors are the China-led Belt and Road Initiative and the Asian Development Bank-led Central Asia Regional Economic Cooperation Programme economic corridors. The Belt and Road Initiative was launched by China in 2013 and consists of six economic corridors sweeping through Asia, Europe and Africa. As part of this initiative, a rail link connecting Chengdu, Sichuan Province, China, and Lodz, Poland, was inaugurated in August 2015. In January 2017, a similar service commenced between Zhejiang province, China, and London.

14. The ESCAP initiative on the Asian Highway network has played an important role in transforming the economies of the region, including landlocked developing countries, with 29 countries (11 of them landlocked developing countries) becoming signatories to the Intergovernmental Agreement on the Asian Highway Network. This network now covers 142,000 km of roads spanning more than 32 countries. Among the 12 Asia-Pacific landlocked developing countries, Kazakhstan, with 12,828 km, has the largest network of roads and highways, followed by Mongolia and Afghanistan. However, the highway routes covered by the Asian Highway network are of varying quality, which is a major cause for concern. Only 25,392 km out of a total of 128,027 km are in the Class I category. Another 52,435 km can be considered Class II category, with the majority in Class III.[4]

15. Another important ESCAP regional initiative is the Trans-Asian Railway network, which has been playing a vital role in connecting markets, production hubs and communities across the region, including landlocked developing countries. As railways are less environmentally damaging and can connect landlocked developing countries with distant seaports and maritime trading routes, the Trans-Asian Railway network plays an important role in the integration efforts of landlocked developing countries in the region. Railways have also become the preferred option for the bulk movement of freight as costs decline with increases in distance covered. Recognizing the importance of railways to their economy and community, 19 countries have become parties to the Intergovernmental Agreement on the Trans-Asian Railway Network, including several landlocked developing countries, such as the Lao People's Democratic Republic, Mongolia, Nepal, Tajikistan and Uzbekistan. Other landlocked developing countries which have signed but are yet to become parties to the Agreement are Armenia, Azerbaijan and Kazakhstan. Turkmenistan is at the accession stage.

16. Another trend in the region, supported by ESCAP, is the growing popularity of dry ports among landlocked developing countries. While this trend has been welcomed by landlocked developing countries, it is important to recognize that lack of financial resources and the shortage of skilled personnel have hampered the development of dry ports in these countries. Poor logistics services and inadequate transport networks and physical infrastructure at border points, including a dearth of bonded warehouses, have added to the list of bottlenecks that prevent landlocked developing countries from fully utilizing the potential of dry ports.

17. ICT has become an integral part of infrastructure in promoting the productive capacity and international competitiveness of landlocked developing countries and bringing about their structural change. ICT solutions to trade, transport and business transactions have opened up new opportunities for landlocked developing countries. For instance, in transit trade, ICT applications can streamline customs clearance procedures and formalities, reduce the number of documents, and make vehicle movements faster and less expensive. E-banking can be an efficient mode for paying taxes and customs duties at border crossing points. In that context, the single window facilitation tools and the United Nations Conference on Trade and

[4] The Asian Highway classification and design standards provide minimum standards and guidelines for the construction, improvement and maintenance of Asian Highway routes. For example, primary class comprises access-controlled highways (used exclusively by automobiles) with 4 or more lanes measuring 3.5 meters; Class I comprises 4 or more lanes measuring 3.5 meters; Class II comprises 2 lanes measuring 3.5 meters; and Class III comprises 2 lanes measuring 3 to 3.25 meters.

Development Automated System for Customs Data[5] have improved customs clearance and procedures in landlocked developing countries. Most of the landlocked developing countries appear to have adopted ICT policies to take advantage of these opportunities. Mobile technology and the use of social platforms have expanded rapidly in landlocked developing countries, with an increasing number of people gaining access to the Internet and other forms of digital communications technologies. The number of Internet, broadband and mobile phone users is also steadily increasing. However, more could be achieved if the prices of basic broadband packages could be brought down, in line with the purchasing capacities of people.

18. The Vienna Programme of Action accords high priority to energy infrastructure and access to affordable, reliable, renewable, related technologies, as they are critical for landlocked developing countries to achieve economic growth, industrial development and manufacturing diversification and to establish export-oriented enterprises. Several oil and gas projects have been or are being implemented by landlocked developing countries, often in collaboration with their transit neighbours. Azerbaijan, Georgia and Turkey are constructing the Shah Deniz II gas field at an investment outlay of $28 billion. China, Kyrgyzstan, Tajikistan and Uzbekistan are constructing the Central Asia-China Gas Pipeline, Line D, at an investment cost of $6.7 billion. Other major energy projects undertaken in the landlocked developing countries include Armenia's Vorotan Hydropower Plant, $250 million, and Mongolia's Newcom Salkhit Wind Farm, $120 million.

19. Financing infrastructure development is one of the key challenges facing landlocked developing countries. The Global Infrastructure Forum, which was launched in Washington, D.C. on 16 April 2016 under the auspices of the multilateral development banks, is a timely step for partly meeting the infrastructure needs in landlocked developing countries. China has set up a $40 billion new Silk Road Fund to support infrastructure development along the Belt and Road Initiative route. Similar support could be expected from the Asian Infrastructure Investment Bank, with initial capital equalling $100 billion, as well as the China Development Bank. Under the Central Asia Regional Economic Cooperation initiative, the Asian Development Bank (ADB) has a separate allocation for infrastructure development in the Central Asian landlocked developing countries. However, the importance of domestic financial resources as means to finance infrastructure development must be emphasized.

IV. Priority 3: international trade and trade facilitation

20. The Vienna Programme of Action attaches great importance to expanding the participation of landlocked developing countries in international trade and value chains as platforms for enhancing their productive capacity development and promoting structural change. To improve their trade performance and promote economic diversification, a wide range of trade facilitation reforms aimed at simplifying trade regulations, procedures and documents have been implemented by landlocked developing countries and their transit neighbours with support from development partners. Among these, promotion of cross-border

[5] An integrated customs management system for international trade and transport operations in a modern automated environment. Advanced software applications are designed and developed for customs administrations and the trade community to comply with international standards when fulfilling import-, export- and transit-related procedures; http://unctad.org/en/Pages/DTL/TTL/ASYCUDA-Programme.aspx.

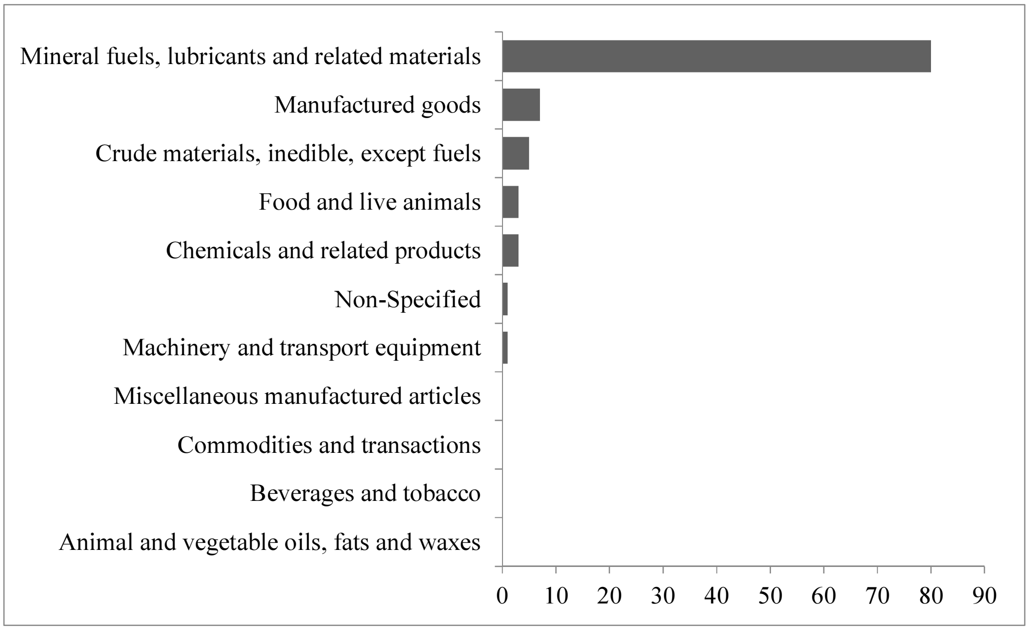
paperless trade, utilization of trade facilitation tools and measures under the WTO trust fund agreement, and adoption of e-based transit and transport facilitation tools have featured prominently.

21. Nevertheless, the share of exports originating from landlocked developing countries in global trade remains low. Moreover, this low share is principally composed of natural resources or natural resource-based semi-processed products that have little value addition. Indeed, partly as a result of growing dependency on primary goods exports, most landlocked developing countries' export growth rates of merchandise goods in the year 2015 were negative, with some economies recording double-digit decreases. Also, the number of destination markets for exports have remained limited, without many trade linkages with others in the region. There are several factors that contribute to the low level of landlocked developing countries' participation in global trade that are not directly linked to the predicament of their geographical characteristics. Rather, they also include a limited industrial base and thus a limited variety of products for the global economy; limited financial capacities (a derivative of a low level of development), bureaucratic barriers to trade, and the lack of adequate political cooperation with existing and potential transit countries.

22. Intra-landlocked developing country trade also remains low, except in the case of Kyrgyzstan (61.27 per cent in 2014), which depends on border trade with its landlocked developing country neighbours for meeting a significant share of its export and import requirements. The causes for the low intra-landlocked developing country trade include the poor quality of transport infrastructure and missing links in transit infrastructure. However, landlocked developing countries' trade with non-landlocked developing country transit neighbours continues to be high. For Mongolia, large countries like China and, to a lesser extent, the Russian Federation, are dominant trade partners. Similarly, India is the largest trading partner for Bhutan and Nepal, while China and Thailand serve the same function for the Lao People's Democratic Republic. This type of trade dependence on a narrow range of transit countries reflects a low product mix as well as limited product destinations, an issue that should be addressed by landlocked developing countries, the transit countries and development partners in a comprehensive way.

23. In particular, trade dependency on one country or on two states (as is sometimes the case of Central Asian countries) contributes to the volatility of trade dynamics. Moreover, there remains a significant preponderance of primary commodities over manufactured goods in the export basket of the region's landlocked developing countries. Although exports of manufactured goods have increased in nominal terms, the continuing importance of commodities in their exports indicates that as a whole these countries have made little progress in diversifying their economies, which should be a topic of urgent attention when adopting policies aimed at economic diversification that are supported by productive capacity development and export diversification. For the major oil and gas producing landlocked developing countries, minerals and related products account for 80 per cent of exports (see figure I). This is one of the main factors contributing to the volatility of export earnings that this group of countries faces.

Figure I
Structure of exports of major oil and gas producing landlocked developing countries, 2015
(Percentage)



Source: United Nations Conference on Trade and Development, UNCTADSTAT. Available from http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx (accessed on 8 November 2016).

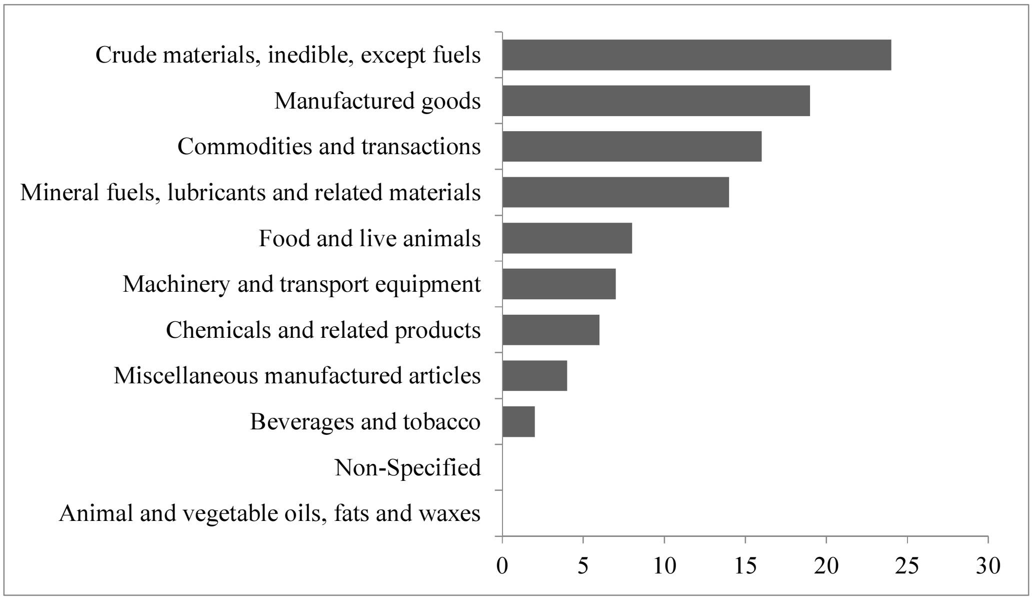
Note: The major oil and gas producing landlocked developing countries are Azerbaijan, Kazakhstan and Turkmenistan.

24. The structure of exports of the non-oil and gas producing landlocked developing countries offers a slightly different picture (see figure II). Except for Bhutan, the Lao People's Democratic Republic and Mongolia, other non-oil and gas producing landlocked developing countries seem to have achieved some balance in their export structure. The Lao People's Democratic Republic is making some progress in diversifying its exports away from hydropower to manufactured and agricultural products, despite the fact that the central Government's intention is to continuously increase the country's energy export capacity. The establishment of some 10 special economic zones and industrial parks, the establishment of the Association of Southeast Asian Nations (ASEAN) Economic Community in December 2015 and the construction of the Chinese-Lao rail link are expected to accelerate this process. While non-oil and gas producing landlocked developing countries still face volatility in export markets, their medium to long-term prospects are positive.

Figure II

Structure of exports of non-oil and gas producing landlocked developing countries, 2015

(Percentage)



Source: United Nations Conference on Trade and Development, UNCTADSTAT. Available from http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx (accessed on 8 November 2016).

Note: Non-oil and gas producing landlocked developing countries are namely Afghanistan, Armenia, Bhutan, Kyrgyzstan, the Lao People's Democratic Republic, Mongolia, Nepal and Tajikistan.

25. With the costs of exporting and importing goods per container often more than double the world average, high trade costs are one of the main factors behind the lacklustre trade performance of landlocked developing countries, as these trade costs discourage landlocked developing countries from investing in export-oriented industries and services, leading to a misallocation of resources. Moreover, with imports tending to be less price elastic, pressure on balance of payments can be exacerbated during rapid falls in export prices.

26. In this regard, trade facilitation measures play a vital role in reducing the trade costs faced by landlocked developing countries, boosting their trade capacity, and diversifying their export basket both in terms of product range and destination markets. The Vienna Programme of Action contains several specific objectives, including the following: to significantly simplify and streamline border crossing procedures with the aim of reducing port and border delays; to improve transit facilities and their efficiency with the aim of reducing transaction costs; and to ensure that all transit regulations, formalities and procedures for traffic in transit are published and updated in accordance with the WTO Agreement on Trade Facilitation.

27. With regard to custom regulations, the picture is mixed. For instance, between 2014 and 2016, the customs component of the World Bank's logistics performance index decreased in seven of the region's landlocked developing countries, while it increased in four. However, many landlocked developing countries are making steady progress in reducing the number of documents and the number of days required to export their products.

Thus, according to the World Bank's *Doing Business Report*, Armenia reduced the number of documents required from six in 2006 to five in 2014, with time to export falling from 37 to 16 days during the same period. Azerbaijan reduced the time required from 34 days in 2006 to 27 days in 2014. Kazakhstan saved 10 days by reducing the number of days required from 89 days in 2006 to 79 days in 2014. The Lao People's Democratic Republic reduced the time required to process export formalities from 55 days in 2006 to 23 days in 2014, a significant achievement shared by Uzbekistan, which succeeded in reducing the days required from 79 in 2006 to 54 days in 2014, with a gain of 25 days.

28. A good part of this achievement has been possible owing to the growing application of trade facilitations tools based on information and technology solutions. Using these facilitation tools, countries have been able to improve their trade portals, streamline their customs procedures and reduce paperwork. In particular, landlocked developing countries have increasingly adopted single window facilitation tools and the Automated System for Customs Data to streamline their export formalities and customs procedures. By 2009, Azerbaijan had instituted single window systems at its customs border checkpoints. Similarly, Bhutan instituted the Bhutan Automated Customs System, and Kazakhstan introduced several measures, including the system for electronic declaration and modernization of its customs information and management system. Kyrgyzstan set up the Single Window Centre for Foreign Trade to boost trade efficiency and the Lao People's Democratic Republic launched its Trade Facilitation Strategic Plan in 2011. The Lao People's Democratic Republic also established the E-Customs Automated System for Customs Data at its border posts. A similar step was taken by Nepal, which has set up the Automated System for Customs Data at its 13 customs offices.

29. Most landlocked developing countries have been supported by ESCAP, ADB and the World Bank in adopting trade facilitation measures. Initiatives such as the Commission's paperless trade facilitation initiative, the ESCAP-World Bank Trade Cost Database and the ESCAP/ADB Trade and Transport Facilitation Monitoring Mechanism have provided important support to landlocked developing countries. However, landlocked developing countries as a group need to continue improving and harmonizing their customs administrations, streamlining border-crossing procedures and applying ICT solutions, including introducing paperless trade and implementing single window environments.[6]

30. While as of 13 January 2017, five of the region's landlocked developing countries had already ratified the new Trade Facilitation Agreement that was inserted into Annex 1A of the WTO Agreement following the Bali Ministerial Conference, efforts for acceding to international conventions and agreements governing international and transit trade need to be increased. In particular, landlocked developing countries which are yet to become members of WTO should do so as soon as possible. They also need to ratify the WTO Agreement on Trade Facilitation so that they can utilize the trade facilitation tools on business process analysis, document alignment, data harmonization and modelling, and single window systems implementation developed by international organizations such as the World Customs Organization, WTO, ESCAP and the Economic Commission for Europe. These facilitation tools can contribute significantly towards building the trade capacity of landlocked developing countries and improving their international competitiveness.

[6] *Asia-Pacific Trade and Investment Report 2015: Supporting Participation in Value Chains* (United Nations publication, Sales No. E.15.II.F.15).

31. State policies should also aim at creating synergies across the areas of trade, infrastructure and connectivity. The region's landlocked developing countries could benefit from assistance from the Asian Infrastructure Investment Bank, the New Development Bank and others. Many of the landlocked developing countries have initiated policies to set up special industrial zones and parks that could further promote trade potential. There should be, however, greater involvement of transit countries to move forward on trade issues relating to facilitation measures and, importantly, to ensure that countries refrain from protectionist measures. Trade policies may and should effectively contribute to the reduction of poverty and to achieving inclusive economic growth that is sustainable to compensate for the negative externalities of being landlocked.

V. Priority 4: regional integration and cooperation

32. Political as well as economic cooperation between landlocked developing countries and their transit countries is vitally needed to improve the connectivity of transport, energy and ICT. Transit infrastructure and trade and regulatory policies also play a critical role in building the trade capacity of the landlocked developing countries and attracting external resources. Regional integration and cooperation is therefore an important platform for transforming landlocked countries into land-linked ones that benefit from the regional flows of trade and investment. Regional cooperation is also an important means to overcome the limitations imposed by the small size of domestic markets faced by several landlocked developing countries.

33. Regional agreements and initiatives aimed at regional economic integration and cooperation have included the ASEAN Economic Community, the South Asian Free Trade Agreement, the South Asian Association for Regional Cooperation (SAARC), the Eurasian Economic Union and the Economic Cooperation Organization, as well as sectoral agreements and subregional initiatives, such as the Transit Transport Framework Agreement, the Cross-border Transport Facilitation Agreement and ASEAN agreements on transport facilitation.

34. The Eurasian Economic Union, the successor of the Eurasian Economic Community, envisions an integrated market that will promote the free movement of goods, capital, services and people. Common transport, agriculture and energy policies with provisions for a single currency and greater integration are also planned. The initiative has had a positive effect on Eurasian Economic Union member States that are landlocked developing countries, whose citizens benefit from improved access to the Russian Federation's labour market. It must be noted, however, that the value of trade among the member States decreased in 2015.

35. The establishment of the ASEAN Economic Community is central to the integration processes of South-East Asia. In 2015 and 2016, enhanced connectivity remained at the top of the agenda of ASEAN transit countries such as Thailand. A direct benefactor is the Lao People's Democratic Republic, partly also as a land-link country to connect the ASEAN Economic Community and China, as the two continue to deepen their economic cooperation.

36. The ASEAN agreements related to transport facilitation and other agreements covering customs, facilitation of goods in transit, establishment of an ASEAN single window system, the Framework Agreement on Multimodal Transport and the Framework on Facilitation of Inter-State Transport have all contributed to facilitating transport of goods in transit,

harmonizing and simplifying regulations and requirements, and establishing an integrated efficient transit transport system. Launched by ADB, the Greater Mekong Subregion Economic Cooperation Programme has been active in enhancing economic relations among the Lao People's Democratic Republic, Thailand and Viet Nam, as well as Cambodia and southern provinces of China, which joined later. It implements subregional projects in transport, energy, telecommunications, environment, human resources development, tourism, trade, private sector investment and agriculture. The Greater Mekong Subregion Cross-Border Transport Facilitation Agreement promotes cross-border transport of goods and people, simplifies and harmonizes legislation, regulations, procedures and requirements, and promotes multimodal transport.

37. The SAARC Preferential Trading Arrangement was created in 1993, followed by the creation of the South Asian Free Trade Area in 2004. Several bilateral trading arrangements have also been formulated between India and Nepal (transit and trade), India and Sri Lanka, Pakistan and Afghanistan (transit and trade), and Pakistan and Sri Lanka. For instance, in June 2015, Bangladesh, Bhutan, India and Nepal signed a Motor Vehicles Agreement with the aim of facilitating movement of cargo across their borders. Discussions are underway for framing a Bangladesh, Bhutan, India and Nepal railway agreement to complement the SAARC Regional Rail Agreement.

38. In addition to these types of regional and subregional agreements on transport and trade facilitation, seven of the region's landlocked developing countries have also concluded bilateral trade agreements with other landlocked developing countries. Landlocked developing countries have also entered into several free trade agreements with other countries. These free trade agreements have varying degrees of impact on exports and imports. For instance, Bhutan, the Lao People's Democratic Republic and Nepal trade mostly with their free trade agreement partners. Azerbaijan, Kazakhstan and Turkmenistan export 20 per cent or less of their merchandise goods to their free trade agreement partners.

39. However, many of the trade and transport facilitation agreements, bilateral free trade agreements and free trade agreements have not been very effective in promoting regional integration. Overlapping and often complicated issues or arrangements that go beyond trade/transport/transit facilitation have slowed down the process of integration. Problematic areas have included the failure to agree on phasing out of duties and tariffs; the designation of traffic rights, border crossing points and destination ports; transport routes; technical requirements of vehicles; temporary admission of vehicles; safety and security; and many more. Disagreement on cross-border issues and political and social upheavals also impede regional integration and cooperation.

40. The Vienna Programme of Action also calls for regional integration and cooperation among landlocked developing countries that goes beyond trade and transport facilitation. Such cooperation and integration should encompass investment, research and development, and policies supportive of regional industrial development and regional connectivity. This broader approach is necessary to foster structural change in landlocked developing countries and to enhance their competitiveness in international markets. There are signs that such broader cooperation is taking place both among landlocked developing countries and between them and other non-landlocked developing countries. For example, industrial enterprises from other countries, including China, have set up production bases in the special economic zones in the Lao People's Democratic Republic.

VI. Priority 5: structural economic transformation

41. Structural economic transformation is the key to reducing the vulnerabilities of landlocked developing countries. Diversification of their economies and progressive reduction of dependency on extraction and simple processing of commodities can bring about significant gains in achieving structural change. This in turn can assist landlocked developing countries in reducing the negative impacts of their geographical disadvantages, create jobs, build local productive capacity, and reduce poverty and inequality. A supportive policy environment, including investments in human resources development, science, technology and innovation, and private sector development, is needed to bring about such structural economic transformation. The specific objectives set forth in the Vienna Programme of Action are to increase value addition in the manufacturing and agricultural sectors, with the aim of achieving inclusive growth and sustainable development; increase economic and export diversification; promote service-based growth, including from tourism, with a view to increasing its contribution to the national economy; and encourage the inflow of FDI in high-value added sectors.

42. It is important to note that nine of the region's landlocked developing countries can be characterized as undergoing systemic economic transformation from central planning to a free market. Such a structural transformation usually involves scaling down dominant heavy industry sectors and supporting or targeting the development of labour-intensive industrial sectors, which initially produce for export. The landlocked developing countries' predicament in this transition is their location and thus limited and costly accessibility to global markets, which impedes structural transformation.

43. Although some progress has been made, landlocked developing countries as a whole are far from achieving significant structural transformation that would put their economies on a sustained growth and development path that is driven by a productive and innovative manufacturing sector and supported by equally efficient and productive agricultural and services sectors. The high economic growth, high levels of per capita income and steady progress in social indicators achieved by many of them prior to the global economic crisis and the collapse of commodity prices have not translated into strong economic and social foundations. This is partly the result of inadequate economic policies and unproductive redistribution of financial resources.

44. With the global slowdown in growth and sluggish trade and investment flows, most landlocked developing countries are forecast to face a difficult period stretching from 2015 to 2017, with the exception of perhaps Bhutan, the Lao People's Democratic Republic and Uzbekistan. Early indications suggest that among the landlocked developing countries, the Lao People's Democratic Republic has achieved some measure of structural change with the implementation of the ASEAN Economic Community in December 2015. Many new manufacturing firms have been established in the special economic zones in the Lao People's Democratic Republic with the cooperation of China, which views the former as its crucial connection to the rest of the ASEAN countries. Agro-processing has also seen steady growth, with healthy tourist arrivals spawning the beginning of a vibrant tourism industry, with numbers exceeding 4.3 million in 2016.

45. Landlocked developing countries that are primarily dependent on resource rents and high commodity prices are facing severe pressure on their macroeconomic performance with adverse social consequences. Several of them may have to adopt painful adjustment measures and could be required to introduce some drastic policy reforms. These resource-rich countries may also have to take a fresh look at the past policies which prevented them from diversifying their economies when conditions were favourable. Governance issues related to resource extraction and use will also have to be considered when carrying out the necessary reforms.

46. One of the most important requirements for promoting growth and bringing about structural change is the investment climate. Yet, in the World Bank's ease of doing business index, most landlocked developing countries rank well below the global average and fall below 50 except for Armenia and Kazakhstan.

VII. Priority 6: means of implementation

47. Concerted efforts on the part of landlocked developing countries, transit neighbours and their development partners, including the multilateral funds and programs, are needed for the effective implementation of the Vienna Programme of Action. These efforts need to be strengthened as the development challenges faced by landlocked developing countries, including those related to low savings-to-GDP ratios, weak institutional capacity, limited size of domestic markets and poor investment climate, make it very difficult to mobilize investment resources for infrastructure development.

48. In this regard, considerable amounts of financial resources, both domestic and external, are needed in landlocked developing countries to meet their infrastructure needs and build productive capacities (especially considering that infrastructure investment needs go beyond building and maintaining domestic transport and communication systems) to develop transit infrastructure and to secure access to their nearest seaports.

49. The Aid for Trade initiative is a further important source of financing for developing trade-related infrastructure and linking landlocked developing countries to the regional value chains. FDI, public-private partnerships, blended finance and remittances need to be utilized more effectively in promoting growth and structural change in these economies. South-South cooperation has recently emerged as a very effective platform for mobilizing resources for infrastructure development and promoting overall development in landlocked developing countries.

50. Several multilateral initiatives can become important sources of development financing for landlocked developing countries. These initiatives include those of the Asian Infrastructure Investment Bank, the New Development Bank, the World Bank's Global Infrastructure Facility, the ASEAN Infrastructure Fund, the Asia-Pacific Economic Cooperation Multi-Year Plan on Infrastructure Development and Investment, and the SAARC Development Fund. Indeed, the increasing popularity of economic corridors, which link landlocked developing countries with each other and with other transit countries, has seen the commitment of significant resources to infrastructure development and the creation of economic hubs along those corridors.[7]

[7] China's Belt and Road Initiative and the Asian Development Bank's Central Asia Regional Economic Cooperation Programme and Greater Mekong Subregion Economic Cooperation Programme are some examples.

51. Landlocked developing countries have also identified domestic resource mobilization as an important component in their resource mobilization efforts. In general, tax revenue is the principal source of meeting government revenue needs and financing essential services in developing countries. A tax-to-GDP ratio exceeding 20 per cent would be needed to do that. Financing long-term lumpy investments would require additional resources. While most landlocked developing countries have made steady progress in raising their tax-to-GDP ratio over the years, only a few have managed to exceed the 20 per cent threshold. Indeed, in several countries tax-to-GDP ratios have been declining (see table 2). Among landlocked developing countries, the resource-rich countries are better placed to raise domestic resources, as their resource-based rents can yield significant amounts of development finance. For instance, in Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan, resource-based rents account for 37 to 47 per cent of their GDP. In contrast, non-resource rich landlocked developing countries will continue to need significant external assistance, including ODA, as they have limited capacities to raise domestic and other forms of competitive resources on their own.

52. However, as incomes rise, landlocked developing countries should be able to raise more resources internally. For that to happen, a wide range of reforms and policy initiatives would be needed. Tax bases need to be broadened, while tax systems should move away from taxation of trade to taxation of goods and services through value-added taxes. Landlocked developing countries should also have targeted tax and tax concession policies to attract FDI, steer investments to infrastructure and employment generating activities, and should strengthen domestic capital markets as alternative conduits for channelling savings to investment. Several resource-rich landlocked developing countries have already created sovereign wealth funds to protect the incomes and living standards of future generations, and others should follow suit.

53. The region's landlocked developing countries have generally been able to attract FDI at a steady pace, which has been instrumental in driving their economic growth and overall development. FDI to landlocked developing countries tends to be resource-based and trade-creating with an increasing amount going to agro-processing, real estate and the tourism sector in recent years. Oil and gas exporting landlocked developing countries, such as Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan, saw significant inflows of FDI to the energy sector. Mongolia, in contrast, attracted most of its FDI to its minerals sector, with mining of copper and gold featuring prominently. Bhutan and the Lao People's Democratic Republic have seen most of their FDI going to the hydropower sector. Non-oil exporting landlocked developing countries have seen most of their FDI going to manufacturing, agro-processing and infrastructure development projects. However, there is considerable volatility in net FDI inflows to both oil and non-oil exporting landlocked developing countries, with the latter group experiencing such volatility more intensely than the former. In several of the region's landlocked developing countries, FDI inflows were, for instance, significantly lower in 2014 than in 2010 (see table 2).

54. ODA constitutes a critical part of the effective implementation of the Vienna Programme of Action. Landlocked developing countries continue to require ODA in all its forms – bilateral, multilateral and concessional – for their development and structural transformation. In particular, ODA is needed to meet infrastructural investment needs, including transit infrastructure development, corridor development, trade capacity development, and energy and ICT development. ODA is also critical to building institutional and

human resources capacities. Unfortunately, net ODA flows declined for many of the 12 landlocked developing countries of the Asia-Pacific region (see table 2); ODA was $8.524 billion in 2014 compared to $9.954 billion in 2010. Most of the downturn is due to decreases in net flows to Afghanistan, Kazakhstan and Uzbekistan.

55. ODA needs to be combined innovatively and productively with domestic savings to support development activities. General government final consumption expenditure, which is the Government's claims on scarce resources, critically determines the availability of domestic savings for investment. As a proportion of ODA (foreign savings), general government final consumption expenditure remains quite high in Afghanistan, Bhutan, Kyrgyzstan, the Lao People's Democratic Republic and Nepal. Most of the net ODA flows to landlocked developing countries has gone into the economic and social sectors, with transport and energy, trade and industry, and tourism development featuring prominently.

56. Some multilateral funding agencies have specific funding programmes that have benefited landlocked developing countries significantly. For instance, the Central Asia Regional Economic Cooperation Programme of ADB was launched in 2001, with a special focus on infrastructure development and connectivity in the Central Asian landlocked developing countries. Beginning with $24.7 million in 2001, its portfolio of investments had risen to $24.6 billion in 2014. Transport, energy and trade facilitation have been the main focus areas of its activities. Another ADB initiative that has been very useful to the Lao People's Democratic Republic, the only landlocked developing country in South-East Asia, is the Greater Mekong Subregion Economic Cooperation Programme. Launched in 1992, it has been active in supporting the establishment of economic corridors and promoting overall economic development of the participating countries, including the Lao People's Democratic Republic.

57. Another important development resource, particularly for social and economic development, is remittances from nationals working abroad. For some landlocked developing countries, remittances far outweigh other forms of external inflows. Thus, in 2015, remittances to the region's landlocked developing countries were valued at $17.41 billion. However, since 2010, remittances have declined in many of the region's landlocked developing countries (table 2).

Table 2
Available financing by source

Country	*Tax revenue (% of GDP)*		*FDI (% of GDP)*		*Remittances (% of GDP)*		*Net ODA (% of GNI)*	
	2010	*2014*	*2010*	*2014*	*2010*	*2014*	*2010*	*2014*
Afghanistan	8.9	6.5	1.3	0.2	2.1	1.6	40.5	23.3
Armenia	20.2	23.5	5.7	3.5	18.0	14.1	0.3	0.3
Azerbaijan	12.4	14.2	1.1	5.9	2.7	2.4	8.7	7.1
Bhutan	13.3	15.8	1.9	0.3	0.5	1.0	0.2	0.0
Kazakhstan	13.4	13.2	7.8	4.1	0.2	0.1	6.2	4.2
Kyrgyzstan	17.9	20.8	9.1	2.8	26.4	25.7	8.5	8.6
Lao People's Democratic Republic	13.5	15.5	4.1	6.2	0.6	0.8	4.6	2.8
Mongolia	27.6	23.7	27.3	4.1	3.7	2.3	5.1	4.4
Nepal	13.4	16.1	0.5	0.2	21.6	32.2	7.8	3.1
Tajikistan	18.0	22.8	1.3	2.9	40.9	28.8	0.2	0.1
Turkmenistan	-	-	16.4	6.9	0.2	0.0	0.6	0.5
Uzbekistan	20.0	19.7	4.1	1.2	7.3	4.7	3.5	2.2

Abbreviations: FDI, foreign direct investment; GDP, gross domestic product; GNI, gross national income; ODA, overseas development assistance.

VIII. Conclusions and recommendations

58. External and internal factors continue to inhibit the region's landlocked developing countries' ability to overcome their development challenges that are related to the priority areas listed in the Vienna Programme of Action.

59. The Commission may wish to encourage landlocked developing countries to strengthen efforts to integrate the Vienna Programme of Action into their national development strategies, with special reference to transit policy issues, transit cooperation, infrastructure development and maintenance, trade facilitation, and structural transformation. It may wish to guide the secretariat on providing assistance on capacity-building for landlocked developing countries towards this end.

60. The Commission may also wish to consider measures to raise the awareness of policymakers of the priorities of the Vienna Programme of Action and which proactive strategies are required to accelerate the process of structural transformation, including increased investment in human resources, technology adaptations and local innovations.

61. The development efforts of landlocked developing countries and the implementation of the Vienna Programme of Action continue to rely on the strong support of the international community. Domestic resource mobilization and national development strategies and policies will remain a key factor in this regard. The Commission may therefore wish to consider how to ensure that the international community keeps the commitments made at various international forums, including those in the 2030 Agenda and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

62. The Commission may also wish to consider encouraging landlocked developing countries to be innovative and creative in looking into synergies between domestic resources, ODA, FDI, remittances and other forms of external financial flows in realizing their development goals. It may wish to guide the secretariat on providing assistance on capacity-building in landlocked developing countries so that they can implement appropriate policies that foster financing for development.

63. The Commission may wish to consider encouraging the secretariat, as a regional arm of the United Nations, to continue to coordinate activities of the United Nations system at the regional level to ensure the effective implementation of the Vienna Programme of Action.