Trade Policy in Landlocked Countries

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A landlocked country is one without direct access to the sea. The sea can be reached only via the territory of other states. There are about 40 landlocked countries in the world:

Africa – 14
Europe – 5
South America – 2
Former Soviet Union – 14
Asia – 5:
  Lao PDR
  Nepal
  Bhutan
  Mongolia
  Afghanistan
Most of these countries are small and poor.

Being landlocked is relevant for transport costs:

1. Transport costs are higher on land than on sea.

2. Because the landlocked country has little choice about the transit of goods, land transport charges are sometimes subject to monopoly pricing within the adjacent countries.

3. Transport costs, and even access itself, can be more uncertain for a landlocked country. It can be at the mercy of the country through which its goods must transit to reach the sea.

Some of this is similar for small, remote island economies.
Being landlocked can also reduce the scope for an *independent trade policy*.

Example: **Nepal**

Nepal shares a long land border with India.

Transit to the sea is only possible through India. Nepal is ‘India-locked’.

Nepal’s GDP is about 1% of India’s.

Smuggling across the Nepal-India border is easy.
India has, until recently, pursued a highly restrictive trade policy with respect to the rest of the world.

- If Nepal tries to set tariffs with respect to the rest of the world above India’s, goods are simply smuggled in from India.

- If Nepal tries to set tariffs below India’s goods are simply smuggled from the rest of the world to India, using Nepal as a conduit (e.g. intermediate goods).

Nepal has been compelled to adopt a similar trade policy to India’s, even though its comparative advantage is quite different.
Historically, landlocked countries have generally been pessimistic about the scope for an export-oriented development strategy. They have generally chosen inward-looking development strategies.

This has hampered their economic progress because they have not exploited their comparative advantage.

Partly because of this, most landlocked countries remain very poor.
Exception: Switzerland.

It has followed an export-oriented strategy, but adjusted to high transport costs by specializing in the export of:

- high-value goods (watches, clocks, scientific instruments), and
- specialized services (banking, insurance).

These reflect Switzerland’s comparative advantage and do not depend on low transport costs.

Switzerland is landlocked but rich.

If Switzerland can do this, why can’t others?
The case for an open trade and investment policy with the ‘rest of the world’ is that this strategy promotes faster growth and facilitates poverty reduction.

The East Asian development experience confirms the success of this strategy.

Being landlocked does not change this basic point, but it does modify the meaning of ‘rest of the world’.
For a landlocked country, events in adjacent countries are more important than for a country with direct sea access.

With direct sea access, the performance of adjacent countries is not so crucial – e.g. Thailand / Myanmar (Burma)

Being landlocked raises transport costs to countries other than the adjacent countries, but can reduce transport costs to particular regions of the adjacent country.

This can create opportunities as well as problems.
Example: Nepal

Being India-locked raises Nepal’s transport costs to countries other than India.

Until the 1990s India’s economy was inward-looking and stagnant.

Being India-locked was a major problem.

With extensive liberalizing economic reforms, India is now growing rapidly.

Having special low-cost access to India’s (landlocked) northern states now gives Nepal special opportunities not shared by the rest of the world outside India.
The comparative advantage of a landlocked country is heavily influenced by circumstances of adjacent countries.

Example: Lao PDR

Thailand’s growth has created demands for products that Lao PDR can supply efficiently, including:

- hydroelectric power,
- timber products and
- specialized agricultural products, including upland crops.

This can create new trading opportunities, even in remote parts of the landlocked country, e.g. northern Lao PDR.
Taking advantage of these opportunities depends on:

- infrastructure development **within** the landlocked country, especially transport

- transport linkages **between** adjacent countries

- international cooperation relating to **border trade**

Regional organizations like ASEAN can help overcome bilateral economic problems, including border trade.

WTO accession is also potentially important, especially for landlocked countries. It introduces **rules** for transit of goods.
Article V (Freedom of Transit) of the GATT (1947) specifies:

“There shall be freedom of transit through the territory of each contracting party…No distinction shall be made which is based on flag of vessels, place of origin…” (para 2)

“…traffic in transit…shall not be subjected to unnecessary delays or restrictions…” (para 3)

“All charges and regulations imposed…shall be reasonable, having regard to the conditions of the traffic.” (para 4)

”…each contracting party shall accord to traffic in transit to or from the territory of any other contracting party treatment no less favourable than the treatment accorded to …any third party” (para 5)
Conclusions:

Being landlocked creates **opportunities** as well as problems.

Good policy is needed to exploit the opportunities and minimize the problems.

Being landlocked does not undermine the case for a liberal economic policy with respect to the rest of the world.

Accession to the WTO reduces the **risk** otherwise associated with an export-oriented development strategy, by assuring freedom of transit.
Thanks for listening