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THE TRANSIT REGIME FOR LANDLOCKED STATES. INTERNATIONAL LAW AND  
DEVELOPMENT PERSPECTIVES

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BY

ANNA S GEVORGYAN

YEREVAN, ARMENIA  
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SIGNATURE PAGE

MR. VIGEN SARGSYAN

Faculty Advisor

Date

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DR. LUCIG H. DANIELYAN

Dean

Date

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American University of Armenia

June 2011

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## **Abbreviations**

**ICSID**- International Centre for Settlement of Investment Disputes  
**ASYCUDA** - Automated System for Customs Data.  
**BTA** – Bilateral Trade Agreement  
**FTA** – Free Trade Agreement  
**CIF**- Cost insurance Freight  
**CIS** – Commonwealth of Independent States  
**ECLAC** - Economic Commission or Latin America and the Caribbean  
**FOB** – Free on Board  
**FTA** – Free trade Agreement  
**GSP** – Generalized System of Preferences  
**GATT** – General Agreement on Tariffs and Trade  
**GDP**- Gross Domestic Product  
**GNI**- Gross National Income  
**ICJ**- International Court of Justice  
**Lao PDR** – Lao People’s Democratic Republic  
**LDC** – Least Developed Countries  
**LLDC** – Landlocked Developing Country  
**LLGDS** – Landlocked and Geographically Disadvantaged States  
**LLS** – Landlocked State  
**MFN** – Most Favored Nation  
**PPP**- Power Purchasing Parity  
**TEU** – Twenty Foot equivalent Unit  
**TNC** – Transnational Corporation  
**UN** – United Nations  
**UNCTAD**- United Nations Conference on Trade and Development  
**UNECE**- United Nations Economic Commission for Europe  
**UNESCAP**- United nations Economic and Social Commission for Asia and Pacific  
**UNHRLLS** - The United Nations Office of the High Representative for Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States  
**UNCITRAL** – United Nations Commission on International Trade Law  
**WCO** – World Customs Union  
**WTO** – World Trade Organization

## **Abstract**

Not all countries are blessed with an advantage of having access to sea. These countries constitute a singular sub grouping called landlocked states. Geographical factor is the main drawback in the development process and trade competitiveness of these countries. Landlocked countries are the ones not having any seacoast as opposed to other geographically disadvantaged states. They are also among the most underperforming countries in the world measured by various economic dimensions. There is empirical evidence that landlockedness puts repercussions on the socio- economic development of these countries. Thus, this essay sets out to examine the desperate plight of Landlocked States caused by a geographic handicap.

Additionally, the Republic of Armenia's, being a landlocked state, not only can't avoid the susceptibility and obstacles brought by the absence of access to sea, but also suffers more than other landlocked countries due to lack of natural resources and border blockages. So, in this regard, this issue is a significant one for Armenia that demands special study.

## **Introduction**

It was almost fifty years ago when the General Assembly of the United Nations in its resolution 1028 (XI) first recognized “the need of landlocked countries for adequate transit facilities in promoting international trade.” At that time, in 1957, the landlocked developing countries that were members of the UN were few in number: Bolivia and Paraguay in Latin America, and Afghanistan, Bhutan, Lao People’s Democratic Republic and Nepal in Asia. Today, the increased number of landlocked countries, together with their wide geographical stretch encircling all the continents of the world, except for North America, denotes that the specific needs and problems of landlocked developing countries have alarmed the international community. Lack of access to the sea and remoteness from major international markets result in high transit costs, creating dreadful obstacles in importing and exporting goods, which itself puts its stamp on the overall level of living standards (Chowhury and Erdenebileg 2006).

Consequently, the development gap between these countries and the rest of the world is widening. It is unquestionable that excessive transit costs have become more a significant barrier than tariffs. The growing importance of the World Trade Organization (WTO) and the concept of free trade it has endorsed mean that, in order to live on, all countries must be able to compete in the world market. From an equity standpoint, this implies that all countries should be assured the same level of access to the international market, on the same terms. But, far not all countries have equal opportunities to do so, *raison d’être* of which, is non-existent access to sea (Chowdhury et al. 2006).

As landlocked states do not possess access to sea, they also lack access to marine possessions. To put it differently, being landlocked means that the access to the key maritime



ways is always indirect; they are forced to pass all the way through the territory of other states (Upreti 2006).

With that spirit in mind, and considering the multifaceted troubles encountered by LLS in their pursuit to improve their standing, a prime deliberation in writing this essay has been to assess the strengths and restrictions of international law regarding the access of LLS to the sea. This said, it attempts to find out whether international law as it stands, satisfies the legitimate economic and legal transit objectives of LLS.

The thesis sets out to thoroughly introduce landlocked states, their development quandary directly linked to geographic factors. It will firstly come up with the legal aspect on LLSs, mainly international law mechanisms and theories. Then the challenges and problems will be introduced prior to the analysis of the condition of LLSs vis-à-vis their coastal neighbors by measuring their economic growth and economic development. In the end, the specificities of Armenia, as a landlocked country will be analyzed.

### *The Conception of Landlocked States*

Landlocked countries, by definition, are those that do not possess any seacoast. They are also among the most destitute and underprivileged countries in the world. As the assessment of global economic activities throughout the past decade will disclose, being detached from the sea has imposed huge repercussions on their socio- economic development. Despite the fact that all developing countries have some way to go to economic and social welfare, the landlocked states have done worse as a result of their distinctive geographic handicaps (Chowdhury et al. 2006).

Apart from relatively well-off States in Western and Central Europe (Switzerland, Austria, the Czech Republic, Hungary and Slovakia), they are all deprived and can truthfully be

classified as landlocked countries facing obstacles that are very hard to overcome. It can also be stressed that coastal economies enjoy higher income than landlocked ones. Indeed, there is not a single high-income landlocked country outside of Europe (UNCTAD 2010).

Actual numbers of landlocked states varies from source to source, but, for example, the UNHRLLS treats LLSs in a special sub grouping called Landlocked Developing<sup>1</sup> Countries (LLDC) whose number is 31. Of the 31 LLDCs, 15 are located in Africa, 12 in Asia, 2 in Latin America and 2 in Europe. Sixteen landlocked developing countries also belong to the group of least developed countries (LDCs) (UNTAD 2010).

Table 1 presents the list of 31 landlocked developing countries, out of which 16 are Least Developed Countries (LCD).

	<b><u>Afghanistan</u></b>		<b><u>Malawi</u></b>
	<b><u>Armenia</u></b>		<b><u>Mali</u></b>
	<b><u>Azerbaijan</u></b>		<b><u>Moldova (Rep. of)</u></b>
	<b><u>Bhutan</u></b>		<b><u>Mongolia</u></b>
	<b><u>Bolivia</u></b>		<b><u>Nepal</u></b>
	<b><u>Botswana</u></b>		<b><u>Niger</u></b>
	<b><u>Burkina Faso</u></b>		<b><u>Paraguay</u></b>
	<b><u>Burundi</u></b>		<b><u>Rwanda</u></b>
	<b><u>Central African Republic</u></b>		<b><u>Swaziland</u></b>
	<b><u>Chad</u></b>		<b><u>Tajikistan</u></b>
	<b><u>Ethiopia</u></b>		<b><u>Turkmenistan</u></b>
	<b><u>Kazakhstan</u></b>		<b><u>Uganda</u></b>
	<b><u>Kyrgyzstan</u></b>		<b><u>Uzbekistan</u></b>
	<b><u>Lao People's Democratic Republic</u></b>		<b><u>Zambia</u></b>

<sup>1</sup> The differentiation between the terms “developed” as opposed to “developing” State is based on GNP or GNI per capita. The World Bank, for instance, identifies States on the basis of their income: Low-income countries have per capita GNI of \$745 or less; middle-income economies have per capita GNI of more than \$746 but less than \$9,205 (lower-middle-income would be \$746–\$2,975, and upper-middle-income \$2,976–\$9,205). Finally, the higher-income economies have per capita GNI of \$9,206 or more. Lower-income and middle-income economies are considered developing economies. *See World Development Report* (World Bank 2003).

	<u>Lesotho</u>		<u>Zimbabwe</u>
	<u>Macedonia (Former Yugoslav Rep. of)</u>		

Source: UNCTAD [www.unctad.org](http://www.unctad.org)

The precise definition of the term “without access” allows to rule out other geographically disadvantaged States. Among states with limited entry are, for example, Democratic Republic of Congo (has a short Atlantic coastline (37 km)), Iraq, Jordan, Kazakhstan, Turkmenistan, and Uzbekistan, all of which have a seashore but only an extremely narrow sea corridor that is not actually used for international trade. Certainly, these states are in various ways similar to those considered here, but for purposes of uniformity, in this essay, LLS refers only to a state that has no coast at all. Nevertheless, it should be renowned that in their activities various LLS created a group with geographically disadvantaged counterparts (LLGDS) in order to put into effect their quests during the proceedings of the United Nations Conference on the Law of the Sea (UNCLOS iii) (Uprety 2006).

Azerbaijan, Kazakhstan, Turkmenistan are landlocked states that have a coast on the Caspian Sea, the status of which is very much debated. The Exception for this study is Uzbekistan, that has an Aral Sea Coast, but due to the fact that it is one of the two doubly landlocked countries in the world along with Liechtenstein, it is not excluded.

### **Historical Characteristics**

With regard to the Western European LLS, some are ancient nations that have maintained a specific national distinctiveness throughout the centuries, like Switzerland, or have demonstrated their roots in feudal times, like Liechtenstein and Luxembourg; others were born only after the vanishing of the Austro-Hungarian Empire, like Czech Republic, Slovak Republic, Austria, and Hungary. In contrast, the national history of most developing LLS differs depending on the continent in which they are located. For instance, in Africa LLSs became States by the

sheer chance when the key European colonial powers engraved up continents for their own benefit. In Latin America, for instance, Bolivia and Paraguay came into existence only after the collapse of the Spanish Empire (Uprety 2006)

### **Landlocked Countries – Challenged By Geography**

Landlocked countries do have many striking similarities. None can be considered geographically large; most are indeed quite small (Mongolia, with an area of 1,567,000 square kilometers is the largest). Furthermore, access of LLDCs to the sea and ports is dependent on their immediate neighbors, and is thus subject to their ability to establish appropriate political and commercial relationships with them. For example, Bolivia is dependent on Chile, with which it has not had diplomatic relations for more than a century, following the War of the Pacific that cost Bolivia its coastline (Uprety 2006)

Evidently, the main point of unity among landlocked states is their remoteness from the sea. However, even in this respect, it should not be assumed that there are no substantial differences among landlocked countries. Remoteness from the sea is largely a question of degree, and for this reason it may be said that some LLS are less geographically handicapped than others. For example, travelling along the main commercial route, the distance between Mbabane, Swaziland, and its outlet to the sea at Maputo, Mozambique, is just over 200 kilometers, in stark contrast, the distance between the Fort Lamy in Chad and its nearest port at Lagos, Nigeria, is 2, 050 kilometers. Notwithstanding, distance is not the only determinant of the degree of disadvantage of LLSs. It is also influenced by factors such as the availability of adequate transport facilities and by the actual number of outlets the state may utilize to reach the sea. Burkina Faso and Uganda are located far inland, but they possess direct railways to important ocean ports. There would appear to be no clear standards for determining relative

disadvantage in cases of this nature. Another clue here is that landlocked States with access to navigable waterways are often less disadvantaged than other LLSs that are obliged to rely on railways and road networks (Vasciannie 1990).

In Africa, only East African LLSs (Uganda, Burundi, Rwanda) benefit from relatively affordable lake transportation, using Lake Victoria and Lake Tanganyika. In Central Africa only the Central African Republic benefits from river transportation, using the Bangui and the Congo rivers. However, even this advantage is limited: Because the Congo is not navigable beyond Brazzaville, goods must be transported by rail from Brazzaville to Pointe- Noire on the Atlantic Ocean. In Asia, only the Lao PDR is blessed with navigable waterways that lead to the sea, and these will only be fully harnessed after the Mekong Project is completed. Otherwise, in most LLS, river transportation is either nonexistent or cannot be used for geographical, financial, or technical reasons (Uprety 2006).

The States with the easiest access to the sea are mostly in Europe, where a maximum of 500 kilometers separates their capitals from the main ports. They are linked to the sea by navigable rivers that have long been internationalized by bilateral or multilateral treaties. Nevertheless, despite significant ideological diversity, all LLS have common interests. All are conscious of their geostructural handicaps and realize that their needs differ from those of their coastal neighbors (Uprety 2006).

### **Research Questions and Hypothesis**

**Hs.** Landlocked States (LLS) are in worse geopolitical conditions than the coastal states.

**RQ1.** What are the International Law mechanisms addressing the concerns of Landlocked States?

**RQ 2.** What are the main challenges and problems LLSs are facing from the economic standpoint?

**RQ 3.** Are economic development and economic growth in LLSs lower than in coastal states due to development quandaries caused by geographical handicap?

**RQ 4.** What are the specificities of Armenia as a landlocked country?

### **Methodology**

This study can be viewed as both exploratory and descriptive aimed at revealing different positions of the topic under study. States that possess United Nations Membership (only three LLS are not members of the UN: Liechtenstein, San Marino, and the Holy See) and have no coast at all will be examined, excluding those that are geographically disadvantaged in this or that way. Those that have limited international recognition are also excluded.

The essay employs comparative, quantitative methodology, using statistics and data for LLSs and comparing to coastal ones. It is based on both primary and secondary sources. The data includes books, articles, conventions, bilateral agreements, and reports from relevant organizations dealing with landlocked countries.

**RQ1.** What are the International Law mechanisms addressing the concerns of landlocked States?

### **The Theoretical Base**

Discussion of littoral States implies talking about the seas. The sea has been considered a power pedestal for nations, with its vast lengths and boundless resources. It is this power that a nation-state is blessed by the sheer accident of geography. Because two-thirds of the earth's surface is water, water is the most extensive mode of transport available. It is also the cheapest.

The littoral States therefore have the advantage of being able to utilize the opportunities of their positioning for economic gain and political influence. The extent to which they have, or have not done so is another matter—but it is hardly surprising that the world’s major powers are littoral States (Uprety 2006).

Free access to the sea for many years constituted the main claim of LLS. Seas constitute not only a “means of communication” but also a source of food and unexploited resources. Today, in addition to the question of transit (support to communication), another problem preoccupies them: participation in and access to the resources of the sea on the same terms as coastal States (economic entitlement) (Uprety 2003)

There has been much theoretical controversy over the nature and basis of international law as it applies to LLS. Simply put, however, the problem of free access to the sea rests at the juncture of two principles of law: sovereignty of a State and freedom of communication among people. Several interesting theories derived therefrom, all rooted in international law, provide the basis for laws relating to LLS (Uprety 2006).

#### *Theory Based on the Freedom of Transit*

Views and opinions are divided about whether there is a general duty on the part of States to grant the right of transit through their national territory to neighboring landlocked States. Those rejecting this idea support their theory with the argument that freedom of transit is subordinated to the fundamental principle of State sovereignty, i.e. the exercise of the transit right is to be approved of the coastal State, which has exclusive authority to gift passage (Uprety 2006).

A prominent jurist Lauterpacht states that freedom of transit through the territory of a “neighbor-State” may represent an advantage of convenience for a coastal State, but for the LLS

it is a *question not of convenience but of survival*. Therefore, the LLS can legitimately demonstrate necessity and urge the transit State to conclude an agreement. In light of the above, it may be argued that under certain conditions, the grant of transit freedom for LLS is an obligation of the State of passage, independent of all international agreements (Uprety, 2006).

### *The Principle of Freedom of the High Seas and Right of access as an International Servitude*

A leading French authority on international law, George Scelles, wrote that the sea—*res communis*—is for the common use of all navigators of the international community. It is thus possible to conclude that the principle of free access to the sea derives from the principle of the freedom of the high seas<sup>2</sup>. The theory of international servitude has also been promoted by some scholars as a solution to the problem of LLS access to the sea. It is a right, based on an agreement between two or more States, by which the territory of one State is subjected to the permanent use of another State for a specified goal. The servitude may be permissive or restrictive, but it does not entail a *positive obligation* to do something. It can be terminated only by mutual agreement, by renunciation by the dominating State. Hence, according to this theory, because of its geographical position, LLS must be considered a “dominant State” and the transit State a “servient State.” This view is controversial because it is difficult to reconcile with the notion of state sovereignty. Nonetheless, according to Labrousse, the doctrine of servitude should be extended to grant a permanent outlet to LLS, independent of any specific treaty or agreement provisions of which are generalized either by the most favored nation (MFN) clause or by restricted usage. Such undefined privileges would be considered sufficient when the transit

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<sup>2</sup> The term High Seas comprises all parts of the sea that are not included in the territorial sea or in the internal waters of a State. See *Convention on the High Seas, 1958*



right is not essential, but the situation of LLS requires that the servitude be clearly established so as to guarantee that the right is permanent (Uprety 2006).

As already mentioned, the notion of international servitude is much contested. The Permanent Court of International Justice (PCIJ) in the Wimbledon case (France v. Germany, 1923, P.C.I.J) abstained from taking the part of either the party arguing for or that arguing against servitude. Also, in the Right of Passage case (Portugal v. India, 1957-1960 I.C.J), some scholars, refusing to recognize the notion of servitude, argue that there is no servitude of public law; its existence is impossible to be proven in international law. To sum up, the notion of servitude in international law does not have the same importance that it did in the early 1900s. Nevertheless, it is not yet entirely outmoded.

This approach can be viewed in the context of North Sea Continental Shelf Cases by ICJ, where it emphasized that the continental shelf is the natural prolongation of the land territory adjacent to it. Indeed, at UNCLOSIII certain landlocked states had suggested that the continental shelf<sup>3</sup> is the natural prolongation of the continent, for both coastal and landlocked states and that therefore, non coastal states should also have access to marine resources. Unfortunately, this possibility appears to be of little realistic significance. In cases of delimitation of between opposite and adjacent States, international tribunals will be unwilling to give prominence to this factor concerning the outer limit of continental shelf where only the indirect interests of members of the world community would be in conflict with the direct interests of a particular coastal state (Vasciannie 1990).

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<sup>3</sup> It should be recalled that in the North Sea Continental Shelf Cases (Federal Republic of Germany v. Denmark/Netherlands), 1969 I.C.J. 3 the ICJ emphasized the link between coastal areas and continental shelf rights. In the view of the majority, the most fundamental rule concerning the continental shelf was that coastal state rights over areas that constitute a natural prolongation of the land territory exist ipso facto and ab initio, by virtue of their sovereignty over the land of sovereign rights for the purpose of exploring the seabed and exploiting its natural resources (1969 I.C.J. Rep. 3, 22). The ICJ further emphasized that shelf rights were exclusive to the coastal state. Clearly, the ICJ ruling altogether foreclosed the possibility for LLS claims to shelf entitlement (Salman, 2002, Malla, 2005).

## **International conventions on freedom of transit**

The four major international conventions that deal with issues related to the freedom of transit of landlocked States are the Convention and Statute on Freedom of Transit (Barcelona Convention), 20 April 1921, the General Agreement on Tariffs and Trade of 1947/1994 (GATT), the United Nations Convention on Transit Trade of Land-Locked States (New York Convention), 8 July 1965, and the United Nations Convention on the Law of the Sea, 1982. The 1958 Convention on the High Seas is often considered a fifth major instrument dealing with the issues, but most of its relevant provisions have been incorporated into the Law of the Sea Convention (Chowhury et al. 2006).

Out of the abovementioned conventions, UNCLOS III has a general and universal orientation in this regard; it regulates all parts and virtually all uses of the oceans. But it deals with LLS only briefly. It is beyond the scope of this study to examine in detail rights of LLS other than access to and from the sea, but other rights will be touched upon to the extent that they facilitate the comparative aspect of this study, as well as in assessing the weaknesses of the Convention from the perspective of the LLS right of access to the sea (Uprety, 2003).

### *General Transit Rights*

As it relates to transit rights, Article 125(1) of the UNCLOS III is clear: Land-locked states shall have the right of access to and from the sea for the purpose of exercising the rights provided for in this Convention including those relating to the freedom of the high seas and the common heritage of mankind. While the 1958 Convention proclaimed a “moral right” in favor of the LLS, the 1982 UNCLOS III Convention recognizes a “real juridical right” in Article 125(1).

However, the force of this seemingly straightforward paragraph is substantially reduced by Article 125(2), which specifically emphasizes that the terms and modalities for exercising freedom of transit are to be agreed upon by the LLS and the transit States concerned through bilateral and regional agreements (Uprety 2006).

What is the scope of the obligations of the transit States, remains unclear. *It is possible to impose an obligation to negotiate, but can one impose an obligation to conclude?* This is one of the thorniest issues in international law. Also, what happens if an LLS and a transit State cannot reach agreement? Unlike the notion of jus cogens on which LLS wanted to anchor their rights of access, the Montego Bay Conference attached the right of access and freedom of transit to “freedom of the high seas” and “the common heritage of mankind,” two principles of international law that have different legal status (Uprety 2006).

*Rights of landlocked states are the following according the LOS:* 1) Right of access (corridor) to the sea (Art. 125(1)); 2) right of innocent passage through the territorial sea and the EEZ 3) under the EEZ: right to exploit the surplus regarding living resources (Art. 62); 4) high seas: right to exploit living and non-living resources 5) Right not to be subjected to customs duties and other taxes higher than those ordinarily charged (Art.127).

In contrary, the New York Convention was more precise. The aim was to proscribe coastal States from taking advantage over LLSs. Article 3 of the New York Convention, affirms that goods in transit are not to be subjected to customs duties or taxes chargeable by reason of importation or exportation (Chowdhuty et al. 2006).

### *Ensuring Access through National or Most-Favored-Nation Treatment*

During the Barcelona Conference, the LLSs had recommended insertion of the principle of national treatment<sup>4</sup> or most favored nation treatment (MFN)<sup>5</sup> in the Barcelona Statute, but that gave no result. By the same token, the New York Conference of 1965 didn't adopt the point of the LLS. Avoiding the principle of national treatment, as an alternative it uses a vague prescription according to which tariffs for LLSs should not be greater than those applied to other States. In the light of the above, the LLS also lost ground with UNCLOS III. The 1958 Convention gave to ships flying the flag of an LLS MFN treatment or national treatment, but Article 131 of UNCLOS III only guarantees "equal treatment" (Uprety 2003).

On the other hand, the General Agreement on Tariffs and Trade (GATT) is centered primarily on the premise of MFN treatment, but again it accepts certain derogation of the premise. So does the Barcelona Statute (Art 7) permitting States to derogate from the agreement temporarily in case of exceptional serious events (Uprety 1995).

### *Flag of Convenience Approach*

Transit—including access to the sea—remains fundamental for LLSs. To ease their problems, it may be advisable, inter alia, for LLS to explore the *flag of convenience*<sup>6</sup> approach.

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<sup>4</sup> National treatment is a feature of many international agreements: The parties agree to treat the citizens, commodities, products, ships, etc. of the other parties in the same manner as they treat their own.

<sup>5</sup> Most Favored Nation (MFN) means the country which is the recipient of this treatment must, nominally, receive equal trade advantages as the "most favored nation" by the country granting such treatment. (Trade advantages include low tariffs or high import quotas.) MFN is a cornerstone of WTO trade law. *see Dictionary of International and Comparative Law (Fox, James, R., 2003)*.

<sup>6</sup> Landlocked countries that have navies include: Bolivia — the Bolivian Navy is the largest navy maintained by a landlocked country, having several thousand personnel. Central African Republic — a small naval force is maintained on the Ubangi River, a tributary of the Congo River. The Ubangi River forms the country's border with Congo-Kinshasa, and is a significant transport route. Laos — the Lao People's Navy operates vessels on the Mekong River. The Paraguayan navy operates on the country's major rivers, notably the Paraguay River and the Paraná River. The Paraguayan navy could reach the open sea by travelling downriver through Argentina. Rwanda , Uganda — the Ugandan navy operates on Lake Victoria. Burundi -- on Lake Tanganyika , Malawi -- on Lake Malawi, Switzerland -- on Lake Geneva, Lake Maggiore and Lake Constance. <http://www.economist.com>

Although not necessarily a cure-all, the approach may give them additional options for getting a better deal on imports or exports of goods. This approach primarily hinges on the Declaration Recognizing the Right to a Flag of States Having No Sea Coast (1921). Borrowed from maritime law, it would mean LLS could own a ship and register it in a particular country that grants flags of convenience. There are LLS that own sizable fleets, but the flag of convenience approach, which has an intrinsic low cost, may be more proficient for LLS that are awfully underprivileged. Though the legal regime supporting flag of convenience in these types of cases may also be fragile and may need improvement, the approach is certainly worth exploring (Uprety 2006).

To sum up, enforcing the provisions of the four conventions appears to be complicated, in part because international law does not provide any clear and precise definition of an *international crisis necessitating suspension of a State's international obligations*. It is also essential to note that, although the 1982 Convention has entered into force, the previous instruments have not been abrogated. As a result, the status of LLS is governed by a sequence of intricate instruments, whose coexistence often creates puzzlement and incoherence. Besides, not all countries are signatories to all the universal instruments that address the issue of right of LLS access to and from the sea: 32 countries acceded to or ratified the Barcelona Statute, 62 ratified the Geneva Convention of 1958, 37 ratified the 1965 New York Convention, and 145 ratified UNCLOS III. Only GATT and the UNCLOS have gained wide international acceptance (Uprety 2006).

Additionally, the four legal instruments do not provide totally synchronized definitions of the various concepts such as “traffic in transit” or “freedom of transit”. Although the major global agreements described above represent real progress in the liberalization of transport, more

detailed agreements covering more narrow activities, procedures and documents are needed. Existing freedom of transit for LLDCs as embodied in the Barcelona Convention, the New York Convention and the UN Law of the Sea Convention has for too long tended to be notional rather than real. LLDCs have had to rely on the political good will of transit States in multilateral and bilateral negotiations for agreements to give practical effect to those rights (ESCAP 2009).

### ***Soft Law mechanisms***

Meanwhile, multiple soft law instruments to react to the access quandary have evolved in parallel in different continents. In 2000, in the United Nations Millennium Declaration, the Heads of State and Government documented the distinctive handicaps confronting LLDCs and called for their exceptional needs and problems to be addressed. This call represented the unrelenting willpower of the international community to place assistance for these countries at the top of the global policy agenda. This encouraging sentiment was further invoked through the United Nations Ministerial Conference on Transit Transport Cooperation in Almaty, Kazakhstan, in 2003. In Almaty, the international community recognized the unique challenges facing LLDCs and set on to bring international efforts together towards their mitigation (Chowdhury et al. 2006).

The Almaty Program of Action emphasized that efficient transit transport systems can be established through genuine partnerships between landlocked and transit developing countries. Until then, they had no UN document supporting their cause. Now, for the first time, these underprivileged countries had UN-mandated declaration and program of action. An important feature of the Conference was that landlocked countries made up their mind to press their case

not only for preferential access to markets but also for inclusion in the WTO (Chowdhury et al. 2006).

### *The Asuncion Initiative*

International attempts to introduce soft laws have not been confined to Central Asia. A Latin American Regional Meeting of Landlocked and Transit Developing Countries Preparatory to the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation was held in Asuncion, Paraguay, on March 12–13, 2003. The meeting, convened by the Government of Paraguay pursuant to UN General Assembly Resolutions 56/180 and 57/242, and organized in collaboration with the Economic Commission for Latin America and the Caribbean (ECLAC) and the Office of the UN High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, adopted its own Program of Action on March 13, 2003. This meeting, too, recognized plainly that the high transport costs faced by landlocked developing countries undercut their economic and social development, their economic growth, their competitiveness in international trade, and their capacity to attract foreign direct investment. Although similar to the Almaty Declaration, the Latin American program of action was much more focused. It attempted to give the LLSs more advantages and thus to further augment equality among countries (Upreti 2006)

**RQ2.** What are the main challenges and problems facing LLS from the economic standpoint?

### ***The Burden of Landlockedness***

About 1 out of 5 countries in the world is landlocked. Twenty of 54 low-income economies are landlocked, the majority of them in Sub Saharan Africa, while only 3 of 35 high-income economies are landlocked (Arvis Rabbaland and Marteau 2010).

Not as blessed as their maritime neighbors, LLDCs lie far from seaports. Transport costs represent a more restrictive limitation on LLDCs' participation in international trade than tariffs or other trade barriers. According to UNCTAD (2009) estimates, on average LLDCs spend almost two times more as a percentage of their export earnings for transport than the average spent by developing countries in general, and three times more than the average spent by developed economies. Access to the sea is critical because land transport costs are much higher than those of shipping by sea, especially in poor countries with inadequate road and rail infrastructure. Shipping goods over one additional kilometer of land costs as much as shipping them over seven extra kilometers of sea<sup>7</sup> (Chowdhury et al. 2006).

### ***Landlocked Countries and Transshipping Points***

Import and export of LLSs must be transshipped through other countries by truck, rail, inland waterway (river, canal, or lake), or some combination of these as they are deprived of sea transportation.

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<sup>7</sup> *Seaway transportation*: This is the cheapest mode of explained transportation modes. It is 22 times cheaper than airway, times cheaper than motorway and 3.5 times cheaper than railway transportation. For that reason it is the most used transportation mode all over the world. It is considered as most secure mode of transportation. See Özceylan, E. 2010. "A Decision Support System to Compare the Transportation Modes in Logistics." *International Journal of Lean Thinking, Volume 1, Issue 1*.



Table2: The landlocked countries and transshipping points

Landlocked Country	Continent	Transship Seaport	Transship Country
Afghanistan	Asia	Karachi	Pakistan
Andorra	Europe	Barcelona	Spain
Armenia	Europe	Batumi Poti	Georgia
Austria	Europe	Antwerp Hamburg Marseilles Rotterdam	Belgium Germany France Netherlands
Belarus	Asia	Gdansk Gdynia Odessa St. Petersburg	Poland Poland Ukraine Russian Federation
Bhutan	Asia	Calcutta	India
Bolivia	South America	Arica Buenos Aires Matarani Santo	Chile Argentina Peru Brazil
Botswana	Africa	Durban	South Africa
Burkina Faso	Africa	Abidjan	Côte d'Ivoire
Burundi	Africa	Matadi	Congo, Dem. Rep. of
Central African Republic	Africa	Douala Matadi Pointe-Noire	Cameroon Congo, Dem. Rep of Congo, Rep of
Chad	Africa	Douala	Cameroon
Czech Republic	Europe	Gdansk Gdynia Hamburg Szczecin	Poland Poland Germany Poland
Ethiopia	Africa	Djibouti Assab Massawa	Djibouti Eritrea Eritrea
Hungary	Europe	Antwerp Hamburg Rotterdam	Belgium Germany Netherlands
Lao People's Dem. Republic	Asia	Bangkok	Thailand
Lesotho	Africa	Durban	South Africa
Liechtenstein	Europe	Antwerp Hamburg Marseilles Rotterdam	Belgium Germany France Netherlands
Luxembourg	Europe	Antwerp	Belgium
Macedonia, Former Yugoslav Republic	Europe	Varna	Bulgaria
Malawi	Africa	Nacala	Mozambique
Mali	Africa	Abidjan Conakry Dakar	Côte d'Ivoire Guinea Senegal
Moldova	Europe	Odessa	Ukraine
Nepal	Asia	Mumbai Calcutta	India India

Niger	Africa	Cotonou	Benin
Paraguay	South America		Argentina Brazil
Rwanda	Africa	Dar es Salaam Mombassa	Tanzania Kenya
San Marino	Europe		Italy
Slovak republic	Europe	Gdansk Gdynia Szczecin	Poland
Swaziland	Africa	Durban	South Africa
Switzerland	Europe	Antwerp Genoa Hamburg Le Havre Marseilles Rotterdam	Belgium Italy Germany France France Netherlands
Tajikistan	Asia	Karachi	Pakistan
Uganda	Africa	Mombasa Tanga	Kenya Tanzania
Zambia	Africa	Dar es Salaam	Tanzania
Zimbabwe	Africa	Beira Durban	Mozambique South Africa

*Source: Adapted from World Bank World Development Reports and World Bank Atlases of varied dates.*

### **Measuring Transport Costs: CIF/FOB margins**

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

Free on board (FOB) measures the cost of an imported item at the point of shipment by the exporter, specifically as it is loaded on to a carrier for transport.

Cost –insurance- freight (CIF) measures the cost of the imported item at the point of entry into the importing country, including the costs of transport (i.e., insurance, handling and shipping costs) but not including customs charges (Chowdhury et al. 2006).

Each additional 1,000 km raises the CIF/FOB margin by 1 per cent, and being landlocked raises the CIF/FOB margin by a further 11 per cent. An important factor contributing to high CIF/FOB margins for LLDCs is the greater economic and political risks they face, considering their absolute dependence on transit neighbors for trade flows (Erdenebileg 2007). On the basis

of the foregoing, Gallup, Sachs and Mellinger (1999) have argued that CIF/FOB margins are a reliable predictor of economic growth. There is an inverse relationship between the two variables: the higher the CIF/FOB margin, the slower the economic growth. Sub-Saharan Africa's economic stagnation can thus be explained largely by its unfavorable geography. The region has the greatest number of LLDCs and thus the highest CIF/FOB margin by far (Chowdhury et al. 2006)

Concerning the transport costs, Venables and Limao (2001) in their econometric study of the determinants of transport cost estimate that increasing journey distance by 1,000 kilometers *at sea* adds US\$ 190 to transport costs, while adding the same distance *on land* costs an additional US\$ 1,380. Thus, land transportation is 7.3 times as expensive as sea transportation. Using the *cif/fob* ratio, Venables and Limao (2001) also find that median transport costs in landlocked countries are 46% higher than the median for coastal countries (Carcamo-Diaz 2004).

Most landlocked developing countries combine all the conditions necessary for having high transport costs:

- they are remote from the major consumer markets where they sell their exports,
- they depend on land and air transport (usually more expensive than sea transport), and
- their infrastructure is inadequate for their needs (Cárcamo-Díaz 2004).

Using transport data and the *cif/fob* ratio, Venables and Limao (2001) offer a statistical indication of the significance of infrastructure as a determinant of these costs. They compute that inadequate infrastructure investment is responsible for as much as 40% of predictable transport costs in countries with access to the sea and for up to 60% in landlocked countries. The data yielded by *cif/fob* ratios allowed Venables and Limao (2001) to estimate that improvements to infrastructure in landlocked countries (without improvements in transit countries) would

diminish the transport cost differential with respect to coastal countries from 46% to 34%. Improving the infrastructure of transit countries (without improving that of landlocked countries) would reduce the transport cost differential to 43%. If the improvements were made in both the landlocked and transit countries, the cost differential would be 31% (Carcamo-Díaz 2004).

*Why are transport costs so high in LLDCs?*

*Remoteness and isolation from major markets*

In many circumstances, the physical distances that LLDCs must surmount before they can reach international trade routes are immense. This challenge is especially sharp for the Central Asian economies. The capital cities of Kyrgyzstan, Tajikistan and Uzbekistan are all more than 4,000 km from the nearest port. Due to a variety of political or military difficulties involving transit neighbors, the shortest route often is not the one actually used. For example, the distance is over 10,000 km for Central Asian countries preferring to utilize the trans-Siberian railroad to reach the Russian Far East port of Vladivostok. This unhappy situation can easily be contrasted with the experience of European landlocked States, which are favorably located within an industrially developed region. Rich neighbors that constitute immediate markets wholly surround Austria and Switzerland (Chowdhury et al. 2006).

Also, LLDCs can find themselves subject to border blockages or other impediments to trade should they find themselves in conflict with their transit neighbors. For instance, when transit neighbors suffer from strikes, natural disasters, civil war or economic upheavals, the transit routes used by LLDCs may become damaged, unsafe or even closed (UNCTAD 2009).

It can be illustrated by an example recently provided in Côte d'Ivoire. After the uprising of September 19, 2003, rebels took control of the ports in Côte d'Ivoire that were key to business

in landlocked countries to the north, making them inaccessible Landlocked Mali, Burkina Faso, and Niger have had to do without access to Abidjan, Cote d'Ivoire's main port, and use more distant ports, such as Cotonou in Benin, Tema in Ghana, and Dakar in Senegal, landing companies with a huge increase in transport costs. In better times, 70 percent of Mali's imports and exports were transited through Abidjan. The new export routes could cost an extra US\$130 million. Burkina Faso, which has a southern border with Côte d'Ivoire, estimated that the unrest cost it nearly C= 30.4 million in revenues and customs duties between September and December 2003 alone. Prices skyrocketed in these West African nations, placing essential commodities out of the reach of ordinary people in countries that are already among the poorest in the world (Uprety 2006).

#### *Economic and Developmental Challenges*

The transit costs are often so high that the export-products of developing LLS cannot compete with products from other developing states in the international market. Developing LLSs like Botswana, Swaziland, Uganda, and Zambia that possess raw materials in high demand in the international market are among the few exceptions. The UN Economic Commission for Africa (ECA) confirmed this in the early 1960s, and a report prepared by a UNCTAD Expert Group in the early 1970s noted that the average cost of access to the sea would be somewhere between 5 to 10 percent of the value of LLS imports and exports (Uprety 2006).

Moreover, in many landlocked developing countries (LLDC), notably in Africa, inland transport accounts for more than half the total door-to-door transport time and cost of imports and exports. For example, transporting goods from the port of Mombassa (Kenya) over a distance of 1,700 kilometers to Kigali (Rwanda), can take up to 30 days and costs between US\$3,000 to US\$4,000 per twenty ton equivalent unit (TEU) or container, yet a container

delivered in Mombassa from Europe, more than 7,000 kilometers away, takes about 18 days at a shipping cost of US\$1,500. There is indeed a clear correlation between this lack of direct access to major markets and economic underdevelopment. Countries whose populations are farther than 100 kilometers from the sea grow 0.6 percent slower per year than those in which the entire population is within 100 kilometers of the coast (Uprety 2006).

### *Foreign Direct Investment (FDI)*

From Logistics standpoint, the existence of a well-functioning transport system in a country is a prerequisite not only for facilitating trade but also for attracting private foreign direct investment (FDI). Among the main economic determinants that investors consider when selecting a host country are physical infrastructure and the availability of trustworthy and efficient transport and communication services (Chowdhury et al. 2006).

Landlocked developing countries (LLDCs) perform poorly as hosts for FDI. Judging by these indicators, the poor performance of LLDCs in terms of attracting FDI suggests that there might be a correlation between their lack of territorial access to the sea, remoteness and isolation. In addition to these geographical disadvantages, some LLDCs are small, with a narrow resource base and a small domestic market. In the absence of critical size, they suffer from diseconomies of scale on both the supply and demand sides. These characteristics make them less attractive for various types of FDI, particularly for FDI that is dependent on trade, whether it be export-oriented (i.e. efficiency-seeking, with substantial intra-firm trade); or import-intensive (i.e. domestic-market seeking) (UNCTAD 2003).

Not surprisingly, the LLDCs have received only a small proportion of international FDI. Inward flows of FDI for LLDCs stood at a combined US\$ 156.4 billion in 2005, or just 0.7

percent of total world flows (US\$ 916.3 billion), and 2 percent of total flows received by all developing countries (US\$ 555.9 billion). Most transit developing countries have relatively higher income levels, a favorable geography and higher population densities, all of which explain the high levels of FDI of these countries (Chowdhury et al 2006).

Notwithstanding the harsh geographic disadvantages it imposes, it is not apparent that being landlocked is by itself a sufficient condition for deterring FDI. Among the LLDCs themselves, there are some noteworthy success stories. Measured in terms of UNCTAD's Inward FDI Performance Index, for example, 8 LLDCs (Bolivia, Malawi, Mali, Mongolia, Uganda and Zambia) ranked among those in the "high performance" category for the period 1999–2001. A major unease here is to differentiate between the impact of a landlocked location on hosting FDI and other obstacles to attracting FDI. Put differently, there is a crucial distinction between location-specific disadvantages in general, and distance from economic centers in particular, and this distinction merits further investigation, since it requires different policy responses (UNCTAD 2003).

#### *Attracting FDI to landlocked countries*

Most discussions on the economic hardship of LLDCs seem to be dominated by the assumption that the remedy for their situation lies in the development of adequate transportation infrastructure (UNCTAD, 2003) that would facilitate access to the main world markets. The second way to improve the attractiveness of LLDCs for FDI is through regional integration that facilitates access to neighboring markets. In this context, there is a need to modify the thinking on the problems of LLDCs – *from a focus mainly on distance from the sea and ports to one on distance from markets*. From this point of view, it would appear that some of the LLDCs are not disadvantaged at all in terms of their geographic location. For example, Paraguay, although far

from the sea, is very advantageously located in the middle of Latin America and at the centre of the Southern Common Market (MERCOSUR) countries. Malawi's position, away from the sea but at the centre of Africa, can also be turned into an advantage (UNCTAD 2003).

#### *Attracting not distance sensitive FDI and via Regional Integration*

Other options of successful FDI policies are to pursue FDI that is not distance sensitive and second, via regional integration. The emergence of globally integrated production systems based on information and communication technologies (ICT) offers a prospective opportunity for LLDCs, because geographic distance becomes largely irrelevant (UNCTAD 2003).

Furthermore, there are both demand and supply aspects to the link between regional integration and the attraction of FDI. many LLDCs are small in terms of market size, but by entering into regional agreements and reducing/eliminating tariffs and other barriers among countries comprising one large market that will be attractive to market seeking investment. The Mekong River sub-region that includes the LLDC, the Lao People's Democratic Republic, is one such example. In this context, they may also initiate joint FDI promotion programs with their immediate neighbors and to promote investment in the region as a whole (Chowdhury et al. 2006).

The establishment of regional transport corridors and the adoption of common rules and standards (UNCTAD 2002) would also be crucial in this regard. The proposal for a new trans-Andean rail line to provide landlocked Paraguay and Bolivia with access to the Pacific Ocean, and in the process facilitate the movement of goods within MERCOSUR<sup>8</sup>, is a case in point here. (*The Economist Intelligence Unit*, 1997). It was estimated that in the early 1990s, intraregional

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<sup>8</sup> *Mercosur* is an economic and political agreement between Argentina, Brazil, Paraguay and Uruguay. Founded in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Its purpose is to promote free trade and the fluid movement of goods, people, and currency. See MERCOSUR, <http://www.mercosur.int/>



trade accounted for only 4 per cent of total trade in Africa, compared with 44 per cent in East Asia and 30 per cent in Latin America (UNCTAD 2007).

To sum up, to attract FDI, geography matters a great deal for LLDCs, along with other economic and political factors. This means that geographical considerations should be explicitly acknowledged in the policy agenda relating to FDI in LLDCs. Nonetheless, the degree of the geographic impact should not be exaggerated. The fact that geography is unalterable should be recognized. Country specific approaches are needed to avoid generalizations that often are inappropriate for individual LLDCs (UNCTAD 2003).

### ***The logistics performance of landlocked developing countries***

LLS trade less (on average 30 percent less) than coastal countries. Transit time, which gives an indication of the relative scope of logistic costs for each shipment, averaged about 47 days for the landlocked countries compared to about 35 days for the coastal countries, implying a penalty of about 33 percent or 12 days (Arvis et al. 2010)

The World Bank launched a Logistics Performance Index (LPI) in 2007. The LPI completes and expands the one found with longer established competitiveness datasets such as *Doing Business* and *Global Competitive Index* (World Bank 2008).

Logistics Performance Index (LPI) is the weighted average of the country scores on the six key dimensions:

- ✓ Efficiency of the clearance process (i.e. speed, simplicity and predictability of formalities) by border control agencies, including Customs;
- ✓ Quality of trade and transport related infrastructure (e.g. ports, railroads, roads, information technology);
- ✓ Ease of arranging competitively priced shipments;
- ✓ Competence and quality of logistics services (e.g., transport operators, customs brokers);

- ✓ Ability to track and trace consignments;
- ✓ Timeliness of shipments in reaching destination within the scheduled or expected delivery time. (Logistics Performance Index 2010).

From the comparisons of logistics performance of landlocked and coastal countries by region, it appears that for each region other than Europe, the logistics performance of coastal countries is much better than that of landlocked countries. By contrast European landlocked countries are not at a disadvantage compared with their coastal transit country which can be attributed to the existence of smooth transit systems through coastal countries. The relative performance of landlocked countries is worst in South Asia (43 percent penalty when compared with coastal countries) and East Asia (20 percent). The difference between landlocked and coastal countries is still significant but not as sharp in Africa (Arvis et al. 2010).

**Table 3: Logistics performance Index of coastal and landlocked countries, 2007**

Region	Regional Average	Landlocked Countries	Coastal Countries	Coastal advantage over landlocked (%)
<b>World</b>	n.a.	2.42	2.80	16
<b>Sub Saharan Africa</b>	2.35/ 2.41	2.22	2.43	9
<b>East Asia and the Pacific</b>	2.58/2.80	2.17	2.59	19
<b>Latin America and the Caribbean</b>	2.57/2.65	2.44	2.58	6
<b>South Asia</b>	2.30/2.49	1.84	2.64	43
<b>Europe</b>	2.64/2.75	2.64	2.63	0

n.a. is not applicable.

Note: Logistics performance is evaluated on a 5 point scale, with 1 the lowest and 5 the highest.

Source: World Bank, 2008 (<http://www.worldbank.org/lpi>).

Two landlocked countries in Sub-Saharan Africa, Mali and Uganda, appear among the best performers in the region in expanding exports of goods and services over a fairly long period and in recent times. Uganda's exports rose from 7 percent of GDP in 1990 to 14 percent in 2006, and Mali's from 17 percent of GDP in 1990 to 30 percent in 2006. Mali and Uganda are

among the top performing countries in the region based on their LPI score, outranking some of the coastal countries (Arvis et al. 2010).

Below table 4 provides a comparison of landlocked and coastal countries for two regions, using the Logistics Performance Index (LPI) developed by the World Bank.

**Table4: Comparison between Landlocked and Coastal Countries in Sub-Saharan Africa and South Asia**

Background Data	Sub Saharan Africa		South Asia	
	Landlocked	Coastal	Landlocked	Coastal
	Lead time (days)		Lead time (days)	
Export (median) shipper → Port	11.8	6.2	6.5	2.5
Import (median) port → Consignee	18.4	9.3	14.7	3.3
Import (best 10 percent) port → consignee	9.1	5.0	11.0	2.5

Source: Logistics Performance Index 2010, <http://info.worldbank.org>

One major conclusion in the light of the above can be drawn: exporters and importers in LLDCs do face high logistics costs, which are highly detrimental to their competitiveness in world markets. But, contrary to the most widespread ideas, high logistics costs usually do not result from poor road infrastructure since transport prices depend mainly on market structure and organization. Besides, high logistics costs depend on low logistics reliability and predictability which itself stem mostly from rent-seeking and governance issues that increase uncertainty along logistics chains (Arvis et al. 2010).

#### *Delays and Unpredictability Matter More than Transport Costs for Development*

The magnitude of delays and unpredictability represents a cost that greatly outweighs in value other costs. Typically, the cost of hedging unreliability is expressed in equivalent days of inventory. It depends on several factors, such as the time value attached to

cargo, the lead transit time and its variability, and the cost to the operator of a break in the supply. Goods bound for landlocked countries face the time equivalent of at least three clearance processes, while goods to coastal countries face only one (Arvis et al. 2010).

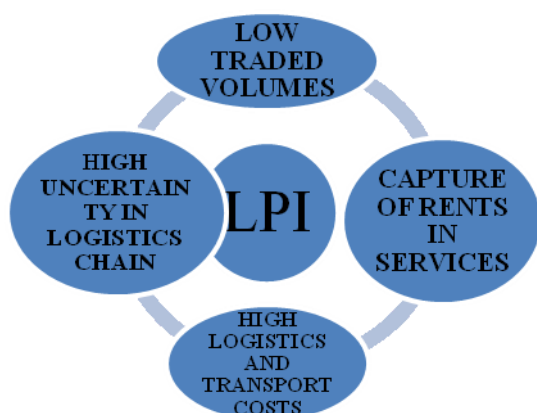


Figure 1: Vicious Circle for LLDC in Logistics

### ***Assessing the Economic Value of Time***

There are several ways of assessing the value of time for shipments, but the one is the most appropriate here: estimating direct costs linked to inventories (expressed in cost per day per 20-foot equivalent unit (TEU)). The estimates provided in Arnold (2006) are the following: the conservative value of time is US\$20 to US\$30 per TEU (US\$40 to US\$60 per trailer or 40-foot container) or 0.1 percent of value per day (Arvis et al. 2010).

The “economic” value of time is most commonly used in macro analyses. It looks at the *overall impact of time on trade flows*. Hence, this economic value of time includes not only the inventory value pro rata temporis, but also, the cost of transportation and opportunity costs due to the “time barrier.” Hummels (2001) found that on average, one more day in transit is valued at 0.8 percent of the value of the goods. Yet even in the most favorable situations, lead time is still

much greater than necessary for landlocked countries. In Central Asia, trucks can face a delay of up to three days at the Uzbek-Turkmenistan border. Delays are due to congestion created uncoordinated working hours in the various administrative offices; slow processing and duplication of tasks between the two border countries (Arvis et al. 2010)

Garments and fresh products are the most time-sensitive among the products that LLDCs export by land or river. A textile exporter of Malawi, as compared to competitors located close to the ports in the same region, will have to pay additional transportation costs, which represent about 30 percent of added value. This is because the exporter's main concern is meeting the delivery schedule. Hence, it prefers to bypass nearby ports in Mozambique and move its export through Durban in South Africa, which doubles the cost (amounting to US\$5,000 per container in 2008). The cost may double again if problems en route cause the exporter to miss the ship in Durban and, instead, catch it an extra 2,000 km away, in Cape Town. In this specific case, it is clear that the reliability factor has triggered the modal choice favoring a costly option (*Arvis et al. 2010*).

#### *The Trade-off between Cost and Reliability*

The above mentioned can be illustrated by an example of Malawi that is served by four corridors to the sea, attracting different traders depending on their requirements and on transport prices. Although trading through Durban is more reliable, it is also the most expensive. However, the Nacala (Mozambique) option is the cheapest route to the sea, but it is also the least reliable. So, all these factors reinforce the reputation of the Beira (Mozambique) route as the most affordable gateway for imports and exports, despite its problems and lack of reliability compared to the port of Durban. Dar es-Salaam is an expensive route compared to the Mozambican routes because of its distance and reliability (*Arvis et al 2010*).

As it was shown above, landlocked states encounter very specific and burdensome challenges, along with other economic and political factors, that seem to undermine the willpower of the countries in many regards. This situation puts its stamp on the economic performance and, hence, on overall living standards of inhabitants. Next section illustrates the aforesaid by empirical evidence.

**RQ3.** Are economic development and economic growth in LLSs lower than in coastal states due to development quandaries caused by geographical handicap?

This part sets out with the objective to review the theoretical and empirical literature on the relationship between the condition of being a landlocked and the degree of economic development attained, measured by GDP per capita income, Gross national income. Concentrating on per capita income is indispensable because there is a strong correlation between a country's per capita gross domestic product (GDP) and other indicators of development, such as literacy rates, etc. The growth rate of the economy is inversely related to transport costs, and these reduce economic growth by making imported capital goods more expensive (Carcamo-Diaz 2004).

### ***Social and economic performance of LLDCs***

Collectively, LLDCs accounted for just 2 per cent of the developing world's total GDP in 2002, even though they occupied 12.5 per cent of the planet's total surface area. Dismal economic growth has led in turn to acute resource constraints for the LLDCs, inhibiting their capacity to alleviate serious social difficulties. It is little wonder that LLDCs score poorly on many human development indicators (Chowdhury et al. 2006).

In 1776, Adam Smith observed that the inland parts of Africa and Asia were the least economically developed areas of the world. Two hundred and twenty-six years later, the human

development report 2003 still painted a bleak picture for most of the world's landlocked countries. Thirteen landlocked countries were classified as low human development, and not one of the non-European landlocked countries is now classified as high human development (Faye McArthur Sachs and Snow 2004).

By and large, the LLSs do worse than their maritime neighbors in each of the human development indicators (HDI). The average GDP per capita of LLS is approximately 57 percent that of their maritime neighbors. Some "privileged" states like Zambia and Uganda do possess raw materials for which there is high demand in the international market. Swaziland and Botswana are also exceptions: Botswana benefits enormously from its diamond trade, and Swaziland benefits from its close location to ports in both Mozambique and South Africa (Uprety 2006).

The economic disadvantage of being a landlocked country is evidenced by the fact that the economic growth of landlocked countries in the period 1992–2002 was 25 per cent lower than that of their transit neighbors. For landlocked developing countries, the average annual growth in real gross domestic product (GDP) per capita during the period 1990–1999 was negative, at –0.93 per cent, as compared with growth of 0.87 per cent in other least developed countries, 1.3 per cent in transit developing countries and 2.49 per cent in other developing countries (UNCTAD 2007).

To answer the research question, a clear differentiation is needed between economic growth and economic development. Economic growth is the increase of per capita gross domestic product (GDP) or other measures of aggregate income (Business and Economy 2011). It should be noted that an increase in GDP of a country greater than population growth is generally taken as an increase in the standard of living of its inhabitants. Economic

development is the increase in the standard of living in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy. According to Ranis, Stewart and Ramirez (2000) economic growth to human development is a two-way relationship. They also note that economic development is not possible without growth but growth is possible without development because growth is just increase in GNP; it does not have any other parameters to it (Economics for Development 2011).

For the purposes of this study, economic growth indicators such as gross domestic product and gross national income, their per capita will be discussed for landlocked countries. Economic indicators combined with economic development indicators will be introduced. Measures such as life expectancy at birth, health, literacy will be introduced by single Human Development Index. Export and import ratios and the overall volume of export of landlocked countries out of the world's total will also be stipulated.

GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. GDP per capita is gross domestic product divided by midyear population. Gross National Income (GNI) comprises GDP plus net receipts of primary income (compensation of employees and property income) from nonresident sources. In other words, Gross national income (GNI) comprises the value within a country (i.e. its gross domestic product), together with its income received from other countries (notably interest and dividends), and less similar payments made to other countries. GNI per capita is the GNI divided by midyear population. Power Purchasing Parity (GNI) is GNI converted to US dollars using PPP rates. The international dollar has the same purchasing power over GNI that the US dollar has in the United States. It means that the purchasing power of different currencies is equalized for a given basket of goods. Net export



(NX) is the value of a country's total exports minus the value of its total imports. A positive balance is known as a trade surplus if it consists of exporting more than is imported; a negative balance is referred to as a trade deficit (World Development Indicators 2011).

**Table 5: Economic Performance of LLS**

Country	Gross National Product ( GDP) 2009		Power Purchasing Parity (PPP) Gross National Income (GNI) 2009		
	Gross Domestic Product \$ millions	Per capita ( US\$)	Billions	Per capita	Rank
Afghanistan	14 483	486	25.1	860	201
Armenia	8 714	2 826	16.7	5410	128
Austria	381 084	45 562	321.3	38 410	25
Belarus	49 037	5 075	123.1	12 740	88
Bolivia	17 340	1758	41.9	4 250	146
Botswana	11 823	6 064	33.0	8 770	105
Burkina Faso	8 141	517	18.4	1 170	193
Burundi	1325		3.3	390	211
Central African Republic	2006	454	3.3	750	207
Chad	6839	610	13.0	1160	194
Czech Republic	190 274	18 139	251.1	23 940	59
Ethiopia	28 526	344	77.3	930	200
Hungary	128 964	12 868	191.3	19 090	67
Kyrgyz Republic	4 578	860	11.7	2 200	167
Lao PDR	5 939	940	13.9	2 200	167
Lesotho	1579	764	3.7	1 800	178
Macedonia FYR	9221	4 515	22.2	10 880	96
Malawi	4 727	310	11.9	780	206
Mali	8 996	691	15.4	1 190	189
Moldova	5 405	1516	10.7	3 010	158
Mongolia	4 202	1573	8.9	3 330	151
Nepal	12 531	427	34.7	1 180	191
Niger	5 383	352	10.3	680	209
Paraguay	14 236	2242	28.1	4 430	142
Rwanda	5 216	522	4.3	1 130	195
Serbia	42 984	5 872	85.6	11 700	93
Slovak Republic	87 642	16 172	119.8	22 110	63
Swaziland	3001	2533	5.7	4 790	134
Switzerland	491 924	63 629	364.1	47 100	14
Tajikistan	4978	716	13.5	1 950	172
Uganda	16 043	490	39.0	1 190	189
Uzbekistan	32 104	2 785	80.9	2910	159
Zambia	12 805	990	16.5	1 280	187
Zimbabwe	5 625	449			
Landlocked	1 595 571		1926.9		
Landlocked (Austria, Switzerland, Czech Rep, Hungary excluded)	403 325				

<b>World</b>	58.259.785		71 774 7		
<b>Landlocked/world %</b>	2.73 %		0.26%		
<b>Landlocked (Austria, Switzerland, Czech Rep, Hungary excluded)</b>	0.69%		0.1 %		

Source: World development Indicators 2011, [issuu.com/world.bank.publications](http://issuu.com/world.bank.publications)

As it appeared from the calculation, as of 2009, GDP of all landlocked countries comprises only 2.73 % of the world total. The GNI (PPP) is 0.26% respectively. If we exclude European developed landlocked countries (Austria, Hungary, and Switzerland, Czech Republic) whose GDP and GNI is very high, the picture will be much desperate: 0.69 % for GDP and 0.1 % for GNI. GDP per capita (excluded European LLCs) on average for landlocked countries is 1076.72. Eight LLCs have GDP per capita less than 500 US \$, and 17 LLCs have GDP per capita less than 1000 US \$.

**Table 6: GDP per capita and its growth, 2001 2006**  
Average per capita income (2006 US\$)

<b>Income Group</b>	<b>2001</b>	<b>2006</b>	<b>Increase</b>	<b>Growth (percent)</b>
<b>High Income</b>	32 800	35 700	2 900	1.7
<b>Upper Middle Income</b>	5 500	6 600	1 100	3.5
<b>Lower Middle Income</b>	1 500	2100	600	6.9
<b>Low Income</b>	500	670	170	4.8
<b>Landlocked Developing Countries</b>	760	970	210	5.3
<b>Transit</b>	1500	2000	500	4.2
<b>World</b>	6700	7400	700	1.9

Source: World Bank Development Data Platform.

**Table 7: Potential Increases in Average per capita, 2006- 2013**

<b>Country Group</b>	<b>2006 (US\$)</b>	<b>Growth rate (percent)</b>	<b>2013 ( US\$)</b>
<b>Landlocked developing Countries</b>	970	8.0	1700
<b>Transit</b>	2000	5.0	2 800
<b>World</b>	7400	1.9	8 500
<b>LLDC world share (percent)</b>	13.0	n.a.	19.6

n.a. is not applicable.

Source: Analysis by World Bank International Trade Department

It should be indicated in this context that out of 31 landlocked developing countries 17 are ranked low income by World Development Indicators (2011). Those are Afghanistan, Burkina Faso, Burundi, CAR, Chad, Ethiopia, Kyrgyz Republic, Lao PDR, Malawi, Mali, Nepal, Niger, Rwanda, Tajikistan, Uganda, Zambia, and Zimbabwe.

**Table 8: Export/ Import ratios of Merchandise<sup>9</sup> trade**

Country	Export	Import
	\$ millions (2009)	
Afghanistan	560	3 970
Armenia	698	3 304
Austria	137 672	143 382
Belarus	21 283	28 863
Bolivia	4 848	4 410
Botswana	3 458	4 728
Burkina Faso	850	2 083
Burundi	64	402
Central African Republic	120	300
Chad	2 800	1950
Czech Republic	113 437	105 179
Ethiopia	1 596	7 963
Hungary	83 778	78 175
Kyrgyz Republic	1 439	3 037
Lao PDR	940	1 260
Lesotho	750	1 950
Macedonia FYR	2 692	5 043
Malawi	920	1 700
Mali	2 100	2 644
Moldova	1 288	3 278
Mongolia	1 903	2 131
Nepal	813	4 392
Niger	900	1 500
Paraguay	3 167	6 940
Rwanda	193	1 227
Serbia	8345	15 582
Slovak Republic	55 980	55 501
Swaziland	1500	1 600
Switzerland	172 850	155 706
Tajikistan	1009	2 569
Uganda	2478	4 310
Uzbekistan	13 735	9023
Zambia	3 312	3 793
Zimbabwe	2 269	2 900

<sup>9</sup> Merchandise trade only includes trade in goods, not services nor capital transfers and foreign investments. Official merchandise trade statistics measure the level, month-over-month and year-over-year changes in total trades, exports and imports. *See CRS Report for Congress: U.S. Merchandise Trade Statistics: 1948 - 2000*

<b>Landlocked</b>	<b>808 862</b>	
<b>Landlocked(excluded Austria, Czech Rep, Switz,</b>	<b>384 904</b>	
<b>World</b>	<b>12 15 000 000</b>	
<b>Landlocked/World</b>	<b>0.06 %</b>	
<b>Landlocked(excluded Austria, Czech Rep, Switz)/ World</b>	<b>0.03%</b>	

Source: World Development Indicators 2011

Overall export volume of LLCs is only 0.06% of the world's total, and 0.03 excluded European developed LLCs (Switzerland, Czech Republic, and Austria). Net exports of all landlocked countries is negative, with the exception of 5 LLCs: again the developed European LLCs that are Switzerland, Hungary, Slovak Republic, Botswana which is itself blessed with diamond and Uzbekistan<sup>10</sup>.

### **Economic Development of LLSs**

Human Development Report 2002 showed that 9 out of 12 countries with the lowest human development are landlocked. Overall, the landlocked countries do worse than their maritime neighbors in each component of the HDI. Life expectancy index scores are 0.3 lower on average, equivalent to 3.5 years, and education index scores are 0.36 lower (Faye at al. 2004).

Starting with 2010 Human Development Report, HDI has 3 dimensions and 4 indicators.

Figure 2: Human Development Index (HDI)



Source: Human Development Report, 2010.

<sup>10</sup> A Special Fund for Landlocked Developing Countries was created in late 1976. UN General Assembly Resolution 31/177 (December 21, 1976), UN Doc. A/31/335/Add.1. Although the responsibility for defining and executing projects is to be shared with UNCTAD, the fund was put under the supervision of UNDP.

The Human Development Index uses internationally comparable data on gross national income (GNI) per capita from the World Bank (2010). These data are expressed using a conversion factor that allows comparisons of prices across countries. This conversion, known as purchasing power parity (PPP), is necessary to take into account differences in the value of a dollar across countries.

#### Human Development Index

It should be noted that in 2002 countries below 0, 345 average were considered in low human development group, but in 2010 the threshold moved up significantly to 0, 470. In 2002 countries with low human development index were 35 out of which 14 were landlocked; in 2010 the number increased up to 41, 15 out of which are landlocked (Table 9).

**Table 9: Countries with low Human development Index**

Year 2002	Year 2010
Bhutan	....*
Nepal	Nepal
Lao Peoples' Democratic Republic	Lesotho *
Uganda	Uganda
Zambia	Zambia
Rwanda	Rwanda
Malawi	Malawi
Mali	Mali
Central African Republic	Central African Republic
Chad	Chad
Ethiopia	Ethiopia
Burkina Faso	Burkina Faso
Burundi	Burundi
Niger	Niger
...*	Lesotho
...*	Afghanistan
...*	Zimbabwe

Source: UNDP, *Human Development Report 2002 and 2010*.\*

\* The rankings were carried out for a sample of 171 and 169 countries respectively. \*- no data available

No data was available for Afghanistan in 2002. Exceptions are Lesotho, Lao peoples' Democratic Republic and Zimbabwe. Lesotho was ranked 132<sup>nd</sup> in 2002 HDI and was

considered to be in the medium development group with an index of 0, 478 fell to 0, 427. Zimbabwe is the bottom mover, as it moved from index of 0, 547 and 128 place to the country with lowest human development index in 2010 : 169<sup>th</sup> with an index of 0, 140.

Bhutan is excluded from the list only because the data was unavailable. When there is significant uncertainty about the validity of data estimates, countries are excluded in order to ensure the credibility of the human development report.

In 2002 out of twelve countries with lowest human development index nine were landlocked ( Rwanda, Malawi, Mali, Central African Republic, Chad, Ethiopia, Burkina Faso, Burundi, Niger) in 2010 the number decreased to 7 out of twelve. But even here there is no progress, since Malawi, Rwanda has moved up slightly but they still remained in the low human development group.

All these illustrations come to answer the RQ 3: Economic Growth and Development are lower in Landlocked States than in coastal countries. This part assessed the impact of being landlocked on the overall economic performance of LLSs. The picture is bleak, so that adequate policy responses are needed to tackle with these problems and steps should be undertaken to attract the attention of international community to come up with solutions that will result in palpable outcomes for LLSs.

**RQ 4.** What are the specificities of Armenia as a landlocked country?

*Armenia: The landlocked country transit issues*

The Republic of Armenia's location presents a particular transport challenge. Of its four bordering countries, only two borders are open: with Georgia to the north and Iran to the south. As a result of the Nagorno-Karabakh conflict, the western border with Turkey was closed in

1993 and the eastern border with Azerbaijan was closed in 1991. Border closures increased the importance of maintaining good relations with Georgia, essential for road/rail access to Black Sea ports and with Iran, the only alternative route to ports. Closed borders result in a substantial increase in transport costs, restricted international and transit trading opportunities, poor prospects for the logistics sector and a reduced role for the railway (Narmania Grigoryan 2010).

The Republic of Armenia faces very specific challenges including geographical distance from the markets, poor infrastructure, and inadequate trade. Many problems faced by the Republic of Armenia, however, have the potential to be overcome or at least mitigated in the long run with the right mix of policies at country and regional level. The World Bank recently ranked the Republic of Armenia 131st out of 150 countries in its Logistics Performance Index. Component rankings were 118th for customs, 142nd for infrastructure and 140th for international shipments. Nevertheless, the location of the country is potentially advantageous for both north-south and east-west transit operations<sup>11</sup> (Narmania et al. 2010)

#### *Trade Policies and Market Access*

The Republic of Armenia has been a member of the WTO since 2003 and its relevant legislation has been brought in conformity with international standards. The Republic of Armenia applies MFN tariffs to imports from its trade partners, except duty-free treatment under the current FTAs with CIS countries. At the same time, Armenia has been long applying tariffs being much lower than the WTO bound rates (according to the WTO estimates, the simple average MFN tariff equals 4% as of 2008) (ESCAP 2008).

Concerning market access for exporters, the Republic of Armenia enjoys MFN treatment from the other WTO members (except Turkey) as well as free trade regimes with CIS countries.

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<sup>11</sup> Armenia has made great efforts to develop its relations with Iran as an alternative transport route and an alternative source of energy. 20% of Armenian land trade now passes across its border with Iran

Neither the EU nor other WTO partners currently maintain any trade protection measures against imports from the Republic of Armenia. At the same time, technical barriers to trade for the Armenian exports to the developed country markets are rather restrictive (Narmania et al. 2010).

It is notable to mention that customs in Armenia uses the Automated System for Customs Data (ASYCUDA) database to conduct importer/exporter profiling to establish selective supervision on declared goods and documents based on the assessment results. The current ASYCUDA system is basically a data-input system for customs declarations that links various units within customs. However, it lacks integration with other government agencies and does not use a single, harmonized electronic trade document. In addition, customs payments are still made in cash (ESCAP 2008).

#### *Trade Relations and Cross- Border Cooperation between Georgia and the Republic of Armenia*

Armenia and Georgia share a land border of 225 km. They have concluded a number of agreements in this filed. One of the most pertinent is the Free Trade Agreement between the Government of Georgia and Government of the Republic of Armenia which entered into force on 11 November 1998. The Agreement establishes a free trade area in conformity with the definition set out in Article 8(b) XXIV of the General Agreement on Tariffs and Trade of 1994 (GATT). Through the Agreement, Georgia and the Republic of Armenia undertake not to levy customs taxes and duties on commodities produced/manufactured upon the territory of each country which are intended for export to the other. Furthermore, the parties should not introduce any discriminatory measures, including quotas and other restrictions upon exports and imports (Narmania et al. 2010).



## *Safeguards*

Being members of the WTO, Georgia and the Republic of Armenia may take a safeguard action (that is, restrict imports of a product temporarily) to protect a specific domestic industry from an increase in imports of any product which is causing, or threatening to cause, serious injury to the industry. These restrictions must be of an exclusive nature and may be applied only in cases envisaged by the WTO agreements. Disputes concerning the investment between the investor and host state will be referred to independent binding arbitration (often ICSID or UNCITRAL arbitration). The recourse to international arbitration excludes relying upon domestic courts<sup>12</sup> (Narmania et al 2010).

The sad fact is that the bilateral agreements concluded between these two countries are largely general in scope, non-specific for implementation and for a limited period of time. The BTA between Georgia and the Republic of Armenia can introduce a common transit procedure regardless of the kind and origin of the goods and lay down procedures to facilitate the transport of goods through the introduction of a single document. There are also some transit bottlenecks during the transit. From the Georgian side, customs check points (except Sadakhlo) are not equipped with adequate customs facilities (Narmania et al. 2010).

## *Transportation Cost for the Republic of Armenia*

The transportation costs of Armenian exports and imports may be considered as one of the highest in the world with the possible exception of African landlocked countries. A diminishing of the transportation costs will allow for a significant increase in the level of

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<sup>12</sup> The difference in this respect exists between ICSID Arbitration and UNCITRAL arbitration. In the case of the former, no provisional (interim) measures can be sought before national courts. The case is different in case of UNCITRAL Arbitration. Moreover, in the case of ICSID arbitration, states are not entitled to exercise their diplomatic protection to protect their nationals. The right to go to arbitration may only arise after attempts have been made to reach an amicable resolution (within six months). This last provision, however, can be replaced by a more-favourable-provision from any other bilateral investment treaties of one of the countries as it is admitted that the MFN clause extends to the dispute settlement. The decisions of ICSID Tribunals are final and, contrary to awards rendered under UNCITRAL arbitration, cannot be reviewed by national courts. Nevertheless, states still enjoy their immunity of execution from enforcement law suits before national courts *see unitral.org*

competitiveness of traditional Armenian exports; that is, in the textiles and footwear industry, food processing, furniture, etc. Achieving the level of transportation costs of the Azerbaijan, for example, which is also a landlocked country, will increase profit margins of traditional exports in the range of 4.5-5% (Narmania et al 2010).

According to studies by the World Bank (2008), it took an average of 24 days to complete the customs clearance process in 2008 which was a 35% decrease as compared to 2005. On the other hand, the number of documents needed to import goods into Armenia increased from six in 2005 to nine in 2008. The main component of Armenian transportation costs is inland transportation. In moving one TEU container from Northern Europe (by sea via port of Poti, Georgia) to Yerevan by road, the Caucasus leg by road accounts for about 67% of total cost of which 27% are logistic costs in the Republic of Armenia(ESCAP 2009).

Armenian railway is 24.9% more expensive on average than Georgian railway: 27.2% more expensive in the case of exports from the Republic of Armenia and 20.7% more expensive in the case of imports to the Republic of Armenia. Taking into account that approximately 60% of all Armenian imports and approximately 45% of Armenian exports in 2009 were delivered by railway, only the equalization of Armenian railway tariffs to that of Georgia will decrease total transportation costs of Armenian imports by about 2% and exports by 3.5% (Narmania et al. 2010).

The main possibilities for diminishing the road transportation charges via Georgia are as follows: Mutual abolition of road taxes or a revitalization of the Agreement on International Road Traffic which was ratified in 1998 but is in fact not operational. This alone will diminish the total transportation costs by 0.08-1 %. Signing a similar agreement with Iran will diminish total transportation costs by another 1.6% (Narmania et al. 2010).

Today, the Georgian Black Sea ports are the main transit corridors for the entire South Caucasus region and have limited cargo capacities. Maritime tariffs to and from the Georgian ports are much higher than sea-tariff between any Mediterranean ports. Sea cost shipment of one TEU container from Beirut (Lebanon) to Marseille, for example, costs 100 USD whereas the shipment of the same container from Poti to Marseille is approximately 675 USD. The reason is the inadequate capacities of the port in terms of shortage of the mooring line. With the ongoing development of the region, Georgian seaports will soon become a serious bottleneck for regional development. The modernization and development of these ports, which could be an issue of mutually beneficial regional co-operation, will allow the increase of their cargo handling capacity to accept much bigger vessels and, therefore, to significantly (about twice) reduce sea transportation costs. In the long run this should become one of the priorities of Armenian transportation and trade facilitation policy (Narmania et al. 2010).

The other way to diminish the transportation costs is to obtain an access to Mediterranean ports through Turkey via opening the Turkish-Armenian border. As a result, the inland cost would decrease by about 30% and sea tariff will be in line with average Mediterranean Sea tariffs. The reopening of the border could reduce Armenian total transportation cost for exports by about 45% (ESCAP 2009).

The Republic of Armenia has free trade agreements with the CIS countries and is currently negotiating an FTA with Iran and Lebanon. Armenia's FTAs with Russia, Ukraine, Kazakhstan and Kyrgyzstan seem to be functioning normally. Azerbaijan refuses goods of Republic of Armenia origin but the Republic of Armenia is open to Azerbaijani goods at Most Favoured Nation (MFN) rates of tariff which may be imported via Georgia. If the conflict with Azerbaijan could be solved, it would be natural to consider the case for a trilateral Armenia-

Azerbaijan- Georgia agreement or a South Caucasus Free Trade Area. This, however, would also require Azerbaijan become a member of WTO (Narmania, et al. 2010).

There remains a need to strengthen the administrative capacity of the various regulatory bodies in the transport sector. The objectives of the Republic of Armenia with respect to its transit services are to secure access to the sea by all means of transport, to reduce costs and improve services in order to increase the competitiveness of Armenian exports, to have routes free from delays and uncertainties, to reduce loss, damage and deterioration (Narmania et al. 2010).

## **Conclusion**

### *What Remains To Be Done – Conclusions and Recommendations*

The essay set out to examine whether landlocked countries are more disadvantaged than the coastal ones. It appeared from the study that it is really the case, evidenced by facts that are undeniable. Landlocked States are disadvantaged on many regards that makes them politically vulnerable, and highly influences their decision making capabilities in crucial circumstances to their detriment. All the challenges landlocked states are facing are burdensome and hard to overcome. Economic growth is lower in landlocked states, that is itself responsible for low development in these countries.

So, the last half-century has witnessed greater momentum to the development of international law and soft law initiatives in relation to LLS than any previous stage. However, this positive evolution is not only an outcome of the growing economic interdependence of states, but it is also a result of the fact that like-minded countries have come forward with a common agenda.

Even so, problems are still plentiful. Many more talks with specific goals are to be conducted and new mechanisms to be devised if the LLS are to obtain the transit rights for moving ahead in trade performance.

This essay clearly showed that geography is not destiny. Being landlocked certainly influences economic, infrastructure and political decisions. However, it cannot be blamed for all economic, social and political development problems a country faces and it should not serve as an excuse for inertia and slow-moving reforms. For landlocked countries it is, for that reason, all the more important to get basic trade policies right and to speed up customs clearance procedures (UNCTAD 2009).

This said, being landlocked in the heart of Europe certainly does not have the same consequences as being a landlocked country in the heart of Africa, Central Asia or South America. There are certainly priority actions to be taken and there are very particular region-wide measures to consider. But there is also sufficient space for more generic solutions that apply to all landlocked countries alike. Work would be particularly useful with regard to trade and customs facilitation measures, cross-border infrastructure development or coordination and implementation of regional or sub-regional approaches (UNCTAD 2009).

It is also vital for a landlocked country to reconsider its composition and course of foreign trade, its main suppliers and customers. Copying an export-driven growth policy that was successful in one part of the world does not necessarily mean that it will work for a remote landlocked country in another part of the world. Reliability, speed and fast response are the required assets for export-oriented growth. When investors do not find these vital requirements, investment will move logically to other countries (UNECE 2003).

Infrastructure development remains a high priority. This, however, does not only mean building new roads or railway lines, it means regular maintenance work, improving transport supply capacities, strengthening facility management systems including through information technology. Building real trade corridors to link landlocked countries with world markets, but in a first instance to regional markets will be the challenge of the coming years. Governments should be prepared to include such concepts in their transportation policies. International infrastructure or transport agreements such as the TIR regime have been very successful in facilitating transit procedures in the UNECE area and beyond. The development of such a regime might be a useful option for other regions as well (UNCTAD 2009).

### **Recommendations**

1. Re-engineering of the transit system of landlocked countries to change the pattern from a multiple inefficient-clearance system to a single-efficient clearance system (Arvis et al. 2010).
2. Customs reform at the national level as a prerequisite for functional sub regional systems.
3. A coordinated corridor facilitation program is needed.
4. Investment in road infrastructure and maintenance should be carried out, for upholding weather capability of corridors and reliability of service delivery.
5. IT investment can also bring tangible benefits.

### *Recommendations for the Republic of Armenia*

Cooperation between the public and the private sector is required for trade facilitation reforms to be successful. A prolific dialogue between private sector representatives and policymakers will help better define the real needs of the market. It would be useful to establish

advisory committees for different sectors such as ICT, transport and logistics with members from the public and private sectors. Continued reforms are needed to implement WTO commitments. Bureaucratic procedures still appear burdensome and time-consuming for investors and traders, where different approvals and licenses may involve several ministries and other agencies (ESCAP 2009).

There is no lead agency in Armenia to spearhead the development of a comprehensive electronic trade documentation system. To develop such a system, the Ministry of Trade and Economic Development could be tasked to work with the National ICT Council to push the country into an e-commerce trading environment and to provide for a seamless electronic trade documentation system, for instance, via by adopting the United Nations Layout Key. Also, steps should be made towards the Flag of Convenience approach discussed earlier in this paper.

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