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THE IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISES ON THE DEVELOPMENT PROSPECTS OF THE LANDLOCKED DEVELOPING COUNTRIES

Report Prepared by John Serieux

UN-OHRLLS consultant

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1. INTRODUCTION

What seemed at first domestic issues – declining US housing prices and the collapse of the sub-prime mortgage market in mid-2007 – has since evolved into fully-fledged global financial and economic crises. These crises have, so far, led to output contractions in the advanced economies in the latter half of 2008 and the prognosis for 2009 is significantly worse, in terms of growth outcomes (IMF 2009a). Though output declines were not as generalized among developing countries in 2008, there are clear signs that these countries, too, will experience negative growth effects in 2009 that, in some cases, may be more severe than the downturn experienced in the advanced economies. What is more, for many countries, this economic challenge comes on the heels of the economic and balance of payment difficulties caused by the sharp oil prices increases of the last two years.

It bears repeating that the world is experiencing not one but two global crises – a financial crisis and a spreading global economic crisis: the latter, by and large, a direct consequence of the former. The fact of a dual crisis means that there is a potential for countries to experience a range of effects deriving from either or both crises simultaneously. These would be in the form of financial sector effects, transmitted almost exclusively through direct financial-sector-related activities, and real sector effects transmitted through trade and international financial flows. The range and extent of these effects will depend on the specific attributes of the affected countries including their level integration into the global financial system and the nature of their economies.

Landlocked developing countries cannot expect to be spared the effects of these crises. Indeed, the particular attribute of being landlocked can potentially magnify the effects of these crises. The want of access to the sea -and therefore cheap and direct trading contact with most of the countries of the world - means that these countries face higher transportation costs as a rule - and other impediments to trade - that may magnify trade-related effects. The need for transit through neighbouring countries also means that these countries have to deal with both transmitted effects and externalities related to economic and other disruptions in transit developing countries. Further, the close economic relationships that these countries have typically developed with neighbouring countries, in part to overcome transportation disadvantages, may magnify both real and financial sector effects, if the neighbouring countries fare particularly poorly with respect to the crises.

This paper explores the likely challenges that the financial and economic crises pose for landlocked developing countries; the nature of these countries' vulnerabilities to the crises; the response of relevant global and regional institutions to the crises; and the policy options open to these countries at the domestic level. In that respect, the critical importance of securing and improving access to the sea and the quality, cost and reliability of transportation networks generally, as emphasized by the Almaty Programme of Action, will be a persistent theme.

In that regard the following section (Section 2) establishes the context in which landlocked developing countries face the crises by describing the nature of the crises and the specific vulnerabilities of landlocked economies, particularly when juxtaposed against those of a comparable group of non-landlocked economies. Section 3 presents and comments on the efforts at the global and regional levels to address the crises and mitigate their effects on developing economies in the context of the specific needs of the unique challenges faced by landlocked economies. The policy options open to landlocked developing countries are also examined. Section 4 presents case studies of a landlocked region (Central Asia) and a landlocked country (Malawi) to provide a more immediate illustration of the challenges faced by these countries. The concluding section summarizes the descriptions and analyses of the preceding sections.

2. THE CONTEXT FOR LANDLOCKED ECONOMIES

2.1 The Implications of Being Landlocked

The landlocked countries are marked by specific vulnerabilities that are a direct consequence of being landlocked. These can be divided into two types of vulnerabilities, both of which can have significant economic, as well as non-economic, implications (Faye *et al*, 2004).

(a) The Transportation Challenge

The fact that goods (and even some services) entering and exiting the landlocked economy must pass through a transit country brings with it several inherent disadvantages:

- The land passage through another country adds, inevitably, to the cost of transport and the administrative burden of transit across more than one border also adds to transport costs in terms of both time and treasure;
- The physical, legal and administrative implications of transmitting goods through another country often have implications for the reliability of transport;
- The landlocked country must live with the quality of the transit country's infrastructure; thus, to some degree, transport quality is an externally-imposed constraint;
- The landlocked country is not only subject to the effects of natural and manmade factors within its borders; it must also contend with the effect of such factors on transit countries, since this also has an effect on the cost and speed, or even availability, of transportation routes (Faye et al, 2004)[1].

(b) The externalities related to being landlocked

For landlocked countries, the lack of ocean access means having land borders on all sides and, almost by definition, a larger number of bordering countries than non-landlocked countries. The landlocked country is, therefore, faced with both the positive and negative externalities derived from proximity to a wider range of countries (MacKellar *et al*, 2000).

Landlocked economies can take advantage of this multitude of proximities to develop stronger economic links to neighbouring countries. To some degree these links can mitigate some of the inherent disadvantages involved with trade with non-neighbouring countries and provide some insurance against transmitted economic effects from a single neighbour. However, this approach also means that the fortunes of such an integrated economy become much more strongly tied to the fortunes of the regional economies to which it has linked itself. Thus, the degree to which this network of links is an advantage or disadvantage for the landlocked economy will ultimately depend on the strength and diversity of the regional economy to which it is linked.

When landlocked economies are also developing economies, not only do these vulnerabilities have immediate implications for growth and development outcomes, but they may interact with and magnify some of the attributes of underdevelopment itself.

Given the disadvantages faced by landlocked economies, one would expect these countries to have lower incomes and trade levels compared to their non-landlocked neighbours. Indeed, as Figure 1 shows, when landlocked developing countries are compared with a sample of their (non-landlocked) neighbours of comparative size and levels of development, they do have lower per capita incomes (measured in purchasing power parity terms).[2] Surprisingly, though, they have sometimes had higher trade-to-GDP

[1] The transportation challenges faced by Zambia, Zimbabwe and Malawi during the periods of conflict in Angola and Mozambique (and apartheid in South Africa) have been well documented.

[2] The group of neighbouring countries are non-island economies adjacent or geographically close to these economies, and of similar size (in terms of population and/or geography) and levels of development. This group thus

ratios than this group of neighbours (Figure 3). However, as might be expected, given the wider range of vulnerabilities landlocked developing countries face, both their output and export growth rates have been more volatile than those of their neighbours in recent decades (Figures 2 & 4).

Figures 1 to 4: Comparison of landlocked countries with neighbouring countries at similar levels of development (1980 – 2007)

Figure 1: GDP Per Capita

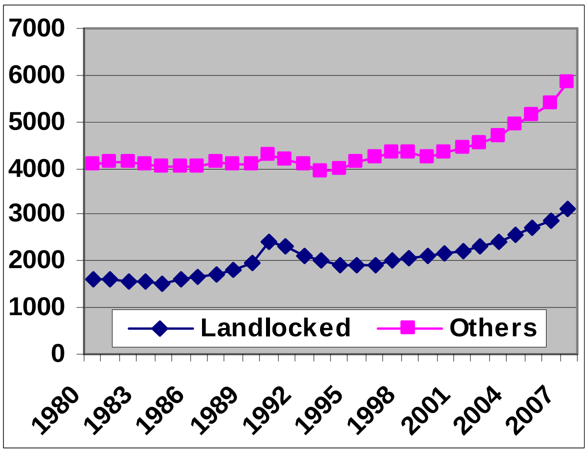


Figure 2: GDP Per Capita Growth

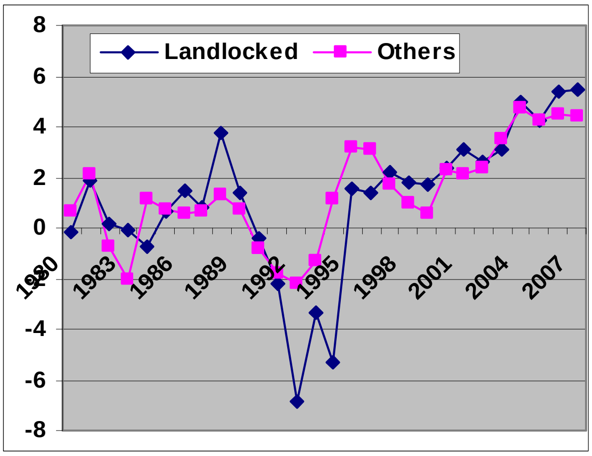


Figure 3: Trade as Percentage of GDP

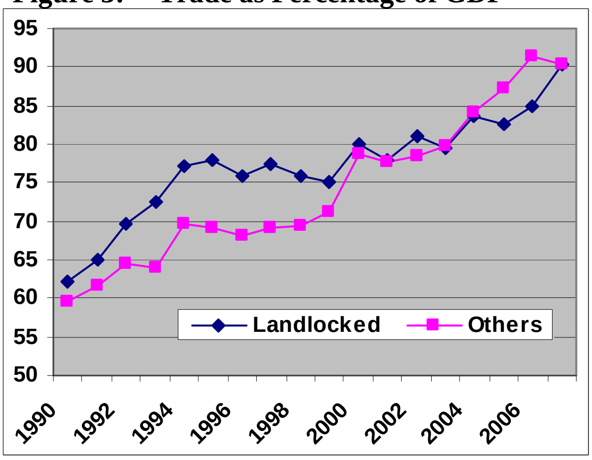
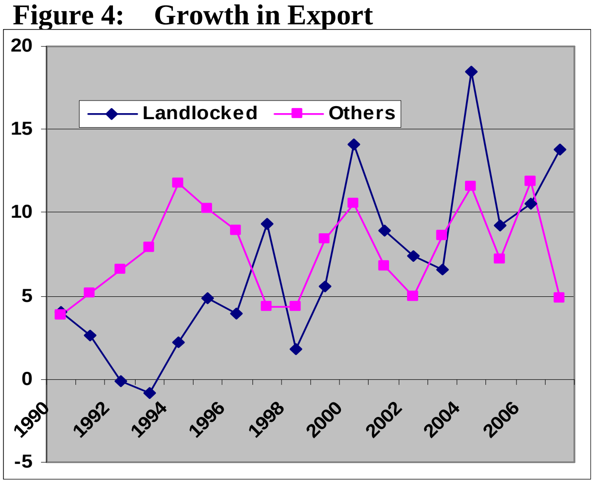


Figure 4: Growth in Export



2.2 Crisis Transmission to Developing Countries

2.2.1 The Global Financial Crisis Effects

As pointed out earlier, while it was clear that developed countries, as a group, were showing signs of an economic downturn by the middle of 2008, the developing economies continued to grow (IMF, 2009a). However, it is not expected that this variation in growth trajectories will continue through 2009, as developing country growth (and, by implication, growth in landlocked developing countries) is expected

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excludes large transit economies (such as Brazil, India and South Africa) that are important to these countries, but not comparable for a developmental perspective. Both lists of countries are presented in Appendix B.

to experience a sharp decline relative to the previous year (IMF, 2009a). The reason for this lag in developing country performance has to do with the dual nature of the crisis and differences in the means of transmission of the effects of these crises onto the economies of developing countries. The global financial crisis, the first of these crises to emerge, has had a direct effect on the economies of only a small number of developing countries. The economic contraction in advanced economies, itself a consequence of the financial crisis, is expected to have a much more generalized effect among developing economies. However, these effects, typically, operate with a lag.

The global financial crisis has real sector effects through three main channels. The first, direct balance sheet effects, has not been relevant to developing countries generally and landlocked economies specifically. The credit squeeze, as the second route, has been relevant to a minority of developing countries and an even smaller minority of landlocked economies. The third channel of reduced availability of trade credit is the only direct financial crisis effect that can be said to be generalized and, therefore, relevant to all landlocked economies. These channels are described below.

2.2.1.1 Direct balance sheet effects

Banks that hold substantial amounts of US mortgage-backed securities have found their balance sheet directly compromised (by the reduced value of these securities and disappearance of secondary markets), resulting, at best, in a reduced ability to lend and, at worse, insolvency. If this effect is generalized to a significant proportion of the banking sector in any country, a financial crisis could ensue (as was the case in Iceland and the United Kingdom). Since few developing country financial institutions held substantial amounts of US mortgage-backed securities, this effect has been confined to the United States and Europe.

2.2.1.2 The Credit Squeeze

The compromised balance sheets of major financial institutions in advanced economies (as well, as the failure of markets in several financial instruments) have resulted in high interest rates and sharp contractions in lending by these financial institutions (and a heightened aversion to risk), both at home and abroad. Thus, banks in developing countries that hold large amounts of short-term foreign liabilities on their balance sheets have found it difficult to rollover debt or to obtain new credit. In some cases, this has compromised solvency for these banks and led to financial crises in their domestic economies (as was the case in Kazakhstan, to be discussed later). More often, it has simply meant a reduction in domestic credit as healthy developing country banks, simply wishing to borrow abroad for unlending at home, have found it difficult to do so.

2.2.1.3 Reduced Availability of Trade Credit

Both the decreased lending capacity and increased risk aversion of banks in advanced economies have negative implications for trade credit. The majority of banks in developing economies, without an international profile, require matching lines of credit in larger international banks in advanced and emerging market economies in order to provide credit to their domestic clients that can be used for trade financing. The reduced lending ability of many of these international banks and, perhaps just as importantly, their greater risk aversion has led to a reduction in both the size and amounts of credit lines made available for trade finance (African Development Bank, 2009). This effect is likely to be most acute for import financing because most of the demand for trade financing comes from importers.

This may prove more serious than it may at first seem, because even production for domestic consumption is usually dependent on imported intermediate inputs. Thus, domestic production is a potential casualty of the dearth of trade credit even before any external demand shocks are taken into account. Moreover, exports may also be affected because, even though developing country exporters are typically not responsible for obtaining credit, the shortage of credit in advanced and emerging market economies is likely to affect the provision of credit to those who wish to import goods from landlocked developing countries, thus creating a credit-induced export contraction quite apart from income-induced changes in export demand.

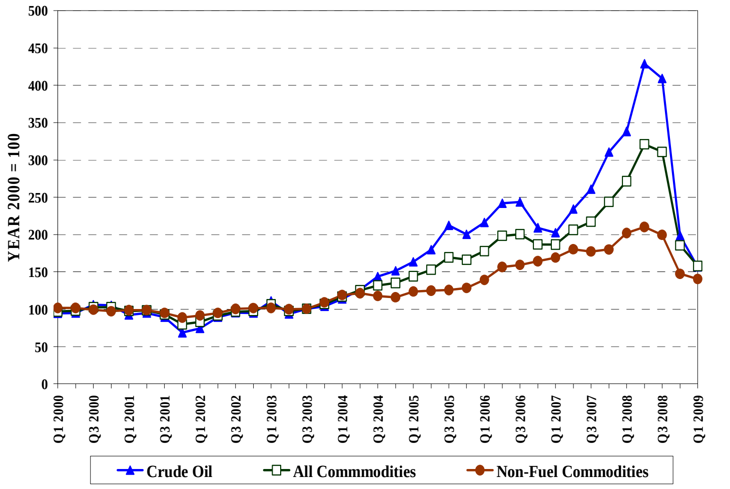
2.2.2 The Global Economic Crisis Effects

Developing countries, in general, and landlocked economies, in particular, can expect to be affected much more directly by the economic contraction in the advanced economies than by the financial crisis itself. This is largely because the effect of the downturn can be transmitted to other countries through a wider range of transactions between economic agents in developed and developing economies. One can identify at least the following five significant modes of transmission.

2.2.2.1 A Fall In Primary Commodity Prices

The historically high prices of major primary commodities, including petroleum, gas, minerals and food, can be expected to drop as the falling demand for these products in advanced and emerging market economies is reflected in lower price quotations in international spot and futures markets (World Bank, 2009a). In fact, as Figure 5 shows, commodity prices have already declined sharply from the high levels reached in the first quarter of 2008 and are already at or below 2006. They will likely decline further.

FIGURE 5: INDICES OF COMMODITY PRICES



2.2.2.2 Falling Export Volumes

Reduced demand in advanced economies, possibly combined with depreciating currencies, will mean reduced imports and, therefore, a fall in the volume of exports of developing countries. Countries that export high-income-elasticity products, such as tourism, can expect to be hardest hit. Together with the fall in commodity prices, this effect will constitute an external demand shock that is likely to be the dominant route through which the landlocked developing countries encounter the ongoing crises.

2.2.2.3 Reduced Private Investment Flows

As profits and incomes fall in developed countries, and investors become more risk averse, foreign direct investment (FDI) and portfolio flows can both be expected to contract sharply. With respect to FDI flows, firms are likely to choose to delay planned investment abroad or cancel such investments altogether. Portfolio flows to developing countries may actually be reversed as investors try to reduce (perceived) risk on their portfolios by fleeing developing country financial instruments in favour of less risky instruments (such as US government bonds) and gold.

2.2.2.4 Reduced Official Flows

There is some evidence that aid disbursements by donor countries are correlated with their rates of output growth (Pallage and Robe, 2001). Therefore, the fact that the economic downturn is affecting most donor country economies simultaneously heightens the possibility that the overall aid levels will fall. At the very least, the recent upward trajectory of aid flows is unlikely to continue. Thus, there is a significant probability that individual countries will find that their access to aid is constrained, just as their need for such assistance is heightened.

2.2.2.5 Reduced Remittance Flows

As unemployment increases in developed economies, the flow of remittances from migrant workers in advanced economies to their relatives in developing countries can be expected to contract. With falling oil and other primary commodity prices, remittances from migrants in primary commodity-exporting countries (such as the oil-producing countries of the Middle East) may decline even more than remittances coming from advanced economies. This effect will likely be exacerbated by exchange rate depreciations in the source economies that reduce the domestic currency value of these flows in the destination economies. If conditions in destination countries deteriorate considerably, there is the real possibility that migrants may be forced to return home – creating an additional burden on recipient countries.

2.3 Important Vulnerabilities of Developing and Landlocked Economies

The modes of transmission elucidated above imply that certain types of developing economies will be more vulnerable than others. Generally, attributes that imply a high concentration in terms of economic interaction with advanced economies (or other vulnerable economies), dependence on external capital flows, specialization in primary commodity export production and a weak balance of payments position will increase the likelihood that the downturn in advanced economies will be transmitted to that developing country, and may even exaggerate the effect. More specifically, the attributes that increase the likelihood that transmitted economic effects will be large and strongly negative are:

- **High proportion of exports directed to advanced economies**

  Because the locus of economic contraction is in advanced economies, and the anticipated drop in output is expected to be quite substantial, the fall in export demand will likely be substantial as well. Moreover, the drop in export demand from advanced economies is likely to be more immediate and larger than any drop in export demand from developing countries (particularly emerging market economies) for which the effect may be both delayed and of second order (though the magnitude of the knock-on effect will vary by country).

- **Primary Commodity Exporters**

  Primary commodity exporters are likely to be the most strongly-affected economies. These countries have benefited greatly from the high primary commodity prices of the last six years and a sharp drop in prices, which has already begun, will be particularly jarring (IMF, 2009b).

- **Countries that have been highly dependent on private capital flows**

  Countries that have been used to high levels of private capital flows may experience a sharp contraction, and even reversal of such flows. This will not only seriously compromise exchange rates and balance of payment positions but may also result in steep declines in domestic investment.

- **Countries that are heavily reliant on official flows**

  The extent and generalized nature of the output contractions in donor economies make it more likely that aid levels will fall in this and the coming year as donor countries struggle with competing demands on their fiscal resources (IMF, 2009b). Further, gaps between aid commitments and disbursements may become larger and the timing of flows less predictable as bilateral aid flows take on lesser importance relative to the economic challenges at home. The reduced predictability of flows will put some pressure on the balance of payments and fiscal positions of recipient countries.

- **Countries that receive large amounts of remittances from abroad**

  For many developing countries, remittances rival exports as the main source of foreign exchange, as well as providing a major boost to domestic consumption and poverty alleviation. A contraction in remittance flows may have significant balance-of-payment and/or exchange rate consequence besides causing a spike in poverty levels and a general demand contraction. Progress toward the Millennium Development Goals may also be compromised by such a contraction. Moreover, all of those effects will be magnified if migrants are forced to return.

- **Countries with weak reserve coverage**

  Contractions in the flows of both goods and finance will likely mean that countries will face shortfalls in foreign exchange earnings. Countries that have high reserve coverage can expect to weather the storm, unless it is prolonged, but countries with weak reserve coverage may soon face balance of payments crises. The policies that may be compelled by these circumstances may simply add to domestic demand contractions (at least in the short run) unless a substantial amount of external assistance is forthcoming.

- **Countries carrying high external debt burdens**

  Much like weak reserve coverage, countries facing high external debt burdens have very limited room to manoeuvre. A fall in foreign exchange earnings will increase the burden of debt service payments and, at the very least, constrain imports and, likely, investment. High debt burdens mean that these countries have less flexibility in obtaining external financing to see them through the crisis. A fully-fledged balance of payments crisis, or sharp exchange rate depreciations and domestic demand contractions, are very likely outcomes for these countries.

As might be expected, most landlocked developing countries demonstrate at least one of these vulnerabilities and some of them demonstrate most of these vulnerabilities. More to the point, when compared to their non-landlocked neighbours, they are typically more vulnerable than less vulnerable.[3] As Table 1 indicates, primary commodity exports (minerals, fuels and primary agricultural commodities) make up a significantly larger proportion of the exports of landlocked economies than that of their non-landlocked neighbours. They have, typically, had similar levels of reserve coverage and are much more dependent on official development assistance and remittance flows than their neighbours. In terms of private flows, landlocked economies have not been significantly more or less dependent than their neighbours (though the amounts, relative to output, remain low for both groups).

Table 1: Comparative Vulnerabilities across Country Groups

Variables	Average for 2003-2007		
	Landlocked Countries (1)	**Comparative Group of Countries (2)**	**Differences (2-1)**
Primary Commodity Exports (% of Merchandise Exports)	77.26	56.11	-21.15
Total Reserves in Months of Imports	4.87	4.24	-0.63
Official Development Assistance (% of GNI)	10.75	4.39	-6.36
Remittances (% of GDP)	6.30	3.11	-3.19
Foreign Direct Investment (% of GDP)	3.87	4.72	0.85
Portfolio Investment (% of GDP)	0.08	0.30	0.22

Source: World Development Indicators (online version)

Table 2 summarizes the results of IMF simulations of trade, FDI, aid and remittance shocks on developing economies and compares these results across the two groups of countries (and within the three, IMF-determined, categories of low, medium and high vulnerability). The comparison indicates that the landlocked developing countries were more likely to demonstrate high vulnerability to FDI, aid and

[3] The group of neighbours is the same group used for Figures 1-4 and described in footnote 1 above. There are countries of comparable size and levels of development and listed in Appendix B.

remittances shocks and medium vulnerability to trade shocks. Except in the area of trade, these results are directly in line with what would be presumed from Table 1.

Table 2: IMF Vulnerability Assessments across Country Groups (only LICs)

Transmission Channels	Landlocked Countries (1)	Comparative Group of Countries (2)	Differences (2-1)
	Percentage Indicating High Vulnerability		
Trade	16.7	29.4	12.7
FDI	4.2	0.0	-4.2
Aid	16.7	5.9	-10.8
Remittances	20.8	17.6	-3.2
Total High Vulnerability scores	14.6	13.2	-4.2
	Percentage Indicating Medium Vulnerability		
Trade	29.2	17.6	-11.5
FDI	25.0	52.9	27.9
Aid	37.5	70.6	33.1
Remittances	29.2	47.1	17.9
Total Medium Vulnerability scores	30.2	47.1	47.5
	Percentage Indicating Low Vulnerability		
Trade	54.2	52.9	-1.2
FDI	70.8	47.1	-23.8
Aid	45.8	23.5	-22.3
Remittances	50.0	35.3	-14.7
Total Low Vulnerability scores	55.2	39.7	-49.3

Source: Appendix V of IMF (2009b).

2.4 A Closer Look at Landlocked Economies and their Vulnerabilities

Table A1 (in Appendix A) indicates that more than 50 percent of the exports of 13 countries (out of the 30 for which export destination data is available) was destined for advanced economies. For these countries, the economic contraction in advanced economies will be felt more quickly, more directly, and perhaps more substantively, as export demand contracts in these economies. For countries that export mainly to developing economies, there is no guarantee that export demand will not contract but there is the possibility, that if the importing economies are not highly vulnerable and/or export destinations cover a wide range of economies, the negative export effect may be muted.

Table A2 indicates that, for 21 out of the 26 landlocked developing countries for which data is available, primary commodity exports made up more than 50 percent of merchandise exports (averaged over the period 2003-2007). This means that the majority of this group of countries can expect significant contraction in export earning as commodity prices continue their downward trend (Figure 5).

Only two landlocked counties received FDI flows in excess of 20 percent relative to output over the period 2003-2007 (Azerbaijan and Chad), but nine countries overall received FDI flows of over five percent of output for the same period (Table A3).[4] Similarly, remittances averaged more than 25 percent of GDP for two countries (Moldova and Lesotho) and over five percent for eight countries. For landlocked developing economies, official development assistance (aid) is the dominant source of external finance. Table A3 indicates that 14 countries received aid valued at more than 10 percent of GDP over the same period and 23 countries received aid valued at more than five percent of GDP. Clearly,

[4] Portfolio flows were generally small, and dominated by FDI flows, for this group of countries and thus a separate examination of these flows would add little to the analysis.

most landlocked developing countries are aid-dependent and many are highly aid dependent. Since history would suggest that aid is likely to be the most stable of these three flows, this may be good news for this group of countries. However, as pointed out earlier, aid may contract and become less predictable during this downturn. Both a contraction and increased volatility can bring with it a significant set of problems that would be exacerbated by the fact that the need for concessional assistance will increase sharply if economic conditions deteriorate. We will return to this question shortly.

Table A4 indicates that the reserve situation for landlocked developing countries is not particularly rosy for a substantial number of countries. As of 2008, ten (or, roughly, one-third) of the landlocked developing countries held foreign reserves that could cover less than four months of imports – the level generally considered adequate for necessary import financing. Two-thirds held reserves that covered less than six months of imports. Thus, only one-third of countries held reserves in excess of six months of imports. This means, essentially, that the majority of countries did not have foreign reserve levels that would give them the option of weathering external shocks (even short-term ones) without the need for recourse to external resources (of some kind) if they wish to avoid painful internal adjustment.

However, the debt situation for many of these countries would make recourse to external debt financing a difficult, unlikely or expensive option. Seven countries averaged debt burdens higher than the maximum suggested by the Enhance HIPC initiative, and three of these (Central African Republic, Lao PDR and Tajikistan) also have less than four months of foreign reserve coverage. Further, eleven of these countries had debt service to export ratios in 2006-07 that exceeded ten percent of exports on average (Table A5). For these countries, the option of using external resources to help mitigate crisis effects will not be a simple matter. For those that are IDA borrowers, in particular (the majority), any assistance will have to be very highly concessional so as not to jeopardize their ability to service outstanding debt in the future (ensuring debt sustainability). For those countries (such as Kazakhstan) that have access to international capital markets but already face a substantial debt burden, the high cost of credit engendered by the global financial crisis (and compounded by their debt situation) may mean that accumulating further debt may bring with it the prospect of substantial future economic challenges.

Table 3 attempts to summarize some of these factors in estimates of how landlocked developing countries will fare, in terms of expected growth reductions and balance of payments deteriorations, individually and as a group, relative to the comparable group of countries. According to IMF (2009a) growth projections, 27 of the 30 landlocked developing countries, for which data is available, can expect growth rates in 2009 to be lower than growth in 2008 and for some countries the differential will be in double digits. Though the comparable group of countries are also projected to experience growth rate reductions on average, the average size of the reduction is projected to be smaller than that for landlocked developing economies (Table 3). Balance of payment deteriorations are also expected to be generalized among this group of countries (21 of the 30 for which data is available). The projected average movement for that group is a deterioration of the current account (of the BOP) while the projected average movement for the comparable group of countries is an improvement. Clearly, as a group, the landlocked developing countries can be expected to face stiffer economic challenges in the coming year than their counterparts.

Table 3: Projected GDP Growth and Current Account Differentials in Landlocked Developing Countries

Country	Differential in Growth Rates between 2008 and 2009	Differential in Current Account Balance (BOP) between 2008 and 2009
Afghanistan	5.6	-2.38
Armenia	-11.8	-6.21
Azerbaijan	-9.1	6.65
Bhutan	-0.9	0.7
Bolivia	-3.7	-1.73
Botswana	-13.4	-7.29
Burkina Faso	-1.5	-2.73
Burundi	-1.0	4.64
Central African Republic, The	0.2	-2.44
Chad	3.2	-0.89
Ethiopia	-5.1	-1.32
Kazakhstan	-5.2	13.12
Kyrgyz Republic, The	-6.7	-6.38
Lao, PDR	-2.8	2.41
Lesotho	-2.9	-15.97
Macedonia, FYR	-7.0	-5.93
Malawi	-2.8	-4.58
Mali	-1.1	-0.31
Moldova	-10.6	-2.37
Mongolia	-6.2	-16.3
Nepal	-1.1	2.11
Niger	-6.5	-3.55
Paraguay	-5.3	-2.09
Rwanda	-5.6	-5.59
Swaziland	-2.0	-4.97
Tajikistan	-5.9	2.33
Turkmenistan	-2.9	4.23
Uganda	-3.3	-0.15
Uzbekistan	-2.0	6.26
Zambia	-2.0	-0.75
Zimbabwe	-	-
Number of Countries with Projected Decline/Deterioration	27	21
Average of Landlocked Countries	-4.0	-1.72
Average for Comparison Group	-3.5	0.61

Source: World Economic Outlook (IMF, 2009a)

2.5 Regional Effects

As mentioned earlier, given the transportation challenges and potential externality issues faced by landlocked countries, there may be benefits to increasing the strength of economic ties with neighbouring countries in order to reduce transportation costs, spread risk and take advantage of the multitude of proximities. The degree to which countries have done this may have implications for their vulnerability and resilience. A large part of what determines whether strong regional ties are an advantage or disadvantage is the strength and resilience of the dominant regional economies.

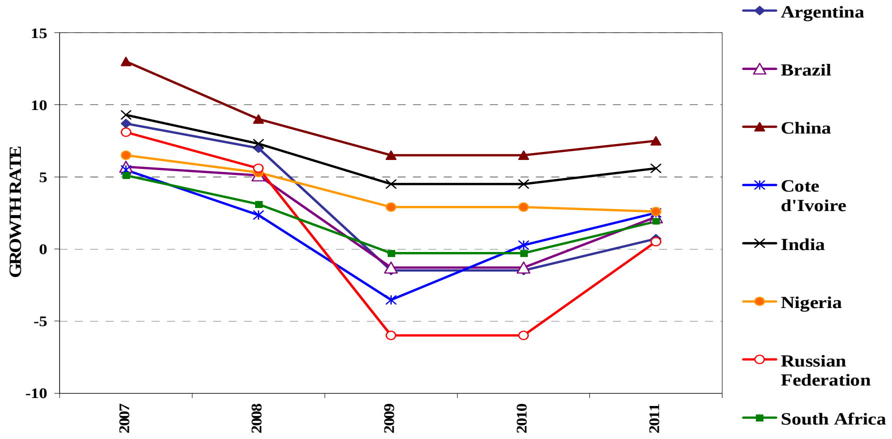
Looking at the record of migration between landlocked economies and their neighbours, a variety of patterns emerge across regions (Table A6). In terms of the exchange of migrants, the landlocked economies of West Africa appear to have gone furthest in terms of the general exchange of migrants within the region, but the countries of Europe and Central Asia have the highest proportion of citizens abroad. South and South East Asia demonstrate the weakest exchange of migrants, while South America and South and East Africa fall somewhere in between. It would be a fair presumption that the exchange of migrants also means an ongoing exchange of remittances (though the correspondence may not be one-to-one). The degree to which this proves a strength or weakness will depend on the strength and diversity of regional economies, particularly the large regional economy.

For landlocked economies, trade integration is much less advanced than labour movements (Table A1). Only about one-half of landlocked developing countries (sixteen) count neighbours as one of their primary trading partners and only a small minority (Lao PDR, Moldova, Paraguay, Turkmenistan and Zimbabwe) count neighbouring countries as their top two trading partners. The degree to which this proves advantageous for these countries depends, of course, on the region and, again, on the strength of the dominant regional economies which are, typically (though not always), the dominant trading partners when countries have a high level of participation in intraregional trade.

Table A7 offers some data that speak to some of the potential vulnerabilities of the important regional economies that are neighbours to landlocked economies. This data indicates that none of these economies can be considered invulnerable. All countries have some area of vulnerability, varying from a high concentration of trade with advanced economies (China, Nigeria, South Africa) to weak debt profiles (Argentina, Brazil). It would be difficult *a priori* to determine which of these vulnerabilities would have the most dramatic growth effect. However, it is a fair presumption that countries that are most highly integrated into the global financial system and have weaknesses related to financial flows (such as high debt levels or a high proportion of short-term debt relative to foreign exchange reserves) are more likely to experience negative effects from both the global financial and economic crises and, therefore, most in danger of experiencing large negative growth outcomes in 2009 and beyond. This is, indeed, what is suggested by IMF projections.

Most of the country vulnerabilities suggested in Table A7 have been taken into account in IMF growth projections in the (updated) World Economic Outlook Database for 2009. These output projections are shown in Figure 6 below. The projected outcomes suggest that the Russian Federation will experience the most acute economic downturn as a result of the crisis – likely because of the combined effect of the drop in commodity prices, resulting from the global economic crisis, and the credit crunch faced by Russian banks due to the global financial crisis. The other countries expected to experience a sharp drop in output growth are Argentina, Brazil, Cote D'Ivoire and South Africa. The first two countries have large debts burdens and the third and fourth have thin reserve coverage and high ratios of short-term debt relative to reserves. All but one (Cote D'Ivoire) have financial sectors that are quite strongly integrated into the international financial system. The countries expected to have the mildest output growth effects are India and China. Their growth rates are expected to drop to approximately half of the 2007 levels in 2009 but remain positive and show signs of recovery by 2010. Nigeria's output growth is also expected to remain positive but its recovery is expected to be more drawn out. None of the latter three countries can be said to be strongly integrated into the international financial system.

FIGURE 6: GROWTH IN MAJOR REGIONAL ECONOMIES (IMF PROJECTIONS)



Source: 2009 WEO Database (IMF)

Judging by these results, the landlocked economies of South and East Asia are most advantaged by the large economies of their region. However, the data on trade and migration indicate that only Nepal and Mongolia are in a position to take advantage of the relative immunity provided by these countries. The degree to which Nigeria's relative resistance to the crises can be beneficial to its neighbours is constrained by the fact that it is not the favoured destination of migrants in the region (Table A6), and intraregional trade is limited for that region (Table A1). The favoured destination for migrants, Cote D'Ivoire, is expected to experience negative growth in output in 2009 and almost no growth in 2010. In Southern Africa, Malawi and Zambia may be hurt by their strong trading links with South Africa and Botswana, Lesotho and Swaziland may see a fall in remittances coming from migrants in that country. Unfortunately, Zimbabwe, a country already experiencing economic difficulties unrelated to the crises, can expect to be most strongly impacted by South Africa's growth contraction (if it does occur) because it has strong economic ties to that country, both in terms of trade and migration. In South America, Paraguay seems particularly disadvantaged by its strong trading and migration links with Argentina. However, the region which is most disadvantaged by the expected growth contraction of its dominant economy is Central Asia. The Russian Federation is the primary destination of migrants for all Central Asian landlocked developing economies and has a strong trading link with many of these countries. Thus, if the expected contraction in Russian growth does in fact materialize (and this is highly likely because Russian growth had already began to falter in the latter half of 2008 (IMF, 2009e)), the landlocked economies of this region may be the ones most strongly affected by the global crises. This issue will be examined in some more detail in the regional case study below.

3 MITIGATION AND THE PROTECTION OF DEVELOPMENT OBJECTIVES

The global financial crisis and the resulting economic contraction in advanced economies pose challenges for all countries. However, landlocked developing countries face particular challenges. As pointed out earlier, the condition of being landlocked implies that these countries face higher transportation costs, are dependent on the physical economic and social conditions existing in transit countries and are likely to be much more sensitive to economic conditions at the regional level, because of the multitude of borders they share and the comparative costs of regional versus non-regional contact.

Partly due to the condition of being landlocked, and partly due to historic and other natural factors, these countries also demonstrate stronger vulnerabilities in certain areas than do other neighbouring non-landlocked economies of similar size and levels of development. Primary commodity exports form a greater proportion of their total merchandise exports, and they are significantly more dependent on development assistance from advanced economies and remittances from migrants abroad. Those vulnerabilities increase both the likelihood that these countries will be negatively affected by the global financial and economic crises and the potential magnitude of transmitted effects on their economies. What is more, close economic ties with the major regional economies will sometimes serve to mitigate or exacerbate these effects depending on the vulnerabilities of those regional economies and the strength of linkages to these economies.

To reiterate, these countries face potential negative external shocks that may take the form of: reduced access to external credit generally, and most acutely in the area of trade financing; a fall in trade volumes; a fall in primary commodity prices; reduced flows of investment finance; increased variability and potential reduction of aid flows; and a sharp drop in remittance flows. Most of these countries are far from having the foreign reserve cushion that might provide them with the ability to "ride the storm," by simply running down reserves (to make up for the shortfalls in foreign exchange earning and to increase domestic demand). In the majority of cases, external (financial and demand) shocks will have to be dealt with through more active and complex policy interventions and resort to external financing.

Because these potential negative external shocks emanate from global crises, uncoordinated efforts to mitigate their effects only at the domestic level would likely have very limited effect in reducing the extent, duration and reach of these crises. There are, without doubt, areas of intervention in which regional and global institutions have a sizable comparative advantage. Without intervention at the global and regional levels, both crises are likely to be prolonged - with potentially devastating consequences for developing countries generally and landlocked developing countries in particular.

The supra-national actors have, in fact, responded to the crisis. Though they have not addressed the needs of landlocked economies in particular, they have, with varying degrees of comprehensiveness, directed some attention to the challenges faced by developing countries generally.

3.5 Global Institutions

3.5.1 The G20

At their April 27, 2009 meeting, the Group of Twenty (G-20) Finance Ministers and Central Bank Governors (actually the heads of the respective countries in this case) agreed to a set of initiatives meant to address the causes of the financial and economic crises on the one hand and to help mitigate the effects of these crises on developed and developing economies on the other. The proposed actions include:

- The establishment of a Financial Stability Board (FSB) that will utilize the surveillance function of the IMF to monitor macroeconomic and financial risk in the world economy;
- Take action, once stability is assured, to ensure adequate quality and quantity of capital in the international banking system;
- Maintain expansionary monetary policies until signs of crisis abatement;
- Extend and improve regulatory standards nationally and internationally;
- Increase resources to the International Monetary Fund and the Regional Development Banks (by an amount of approximately $1.1 trillion) for assisting economies in dealing with the effects of the crises, including trade finance.
- Promote global trade and reject protectionism (G20 Major Economies, 2009).

While most of those actions will go some way toward addressing the effects of the crises, some of the most critical policy initiatives expected from this group were pushed into the future. Notably, while there was some agreement on the coordinated easing of monetary policies across the G20 economies, no similar agreement on fiscal policy was forthcoming. Also, no clear framework for ensuring that the international banking system is put on a sound footing, was outlined. (Presumably both of these issues will be taken up more directly at their next meeting in late 2009). Moreover, a notable absentee, in terms of the receipts of increased resources, was the concessional funding arm of the World Bank, the International Development Association (IDA). A majority of landlocked developing countries are members of the IDA and increased resources for that institution could be critical in allowing these countries the scope for mitigating the effects of the external shock, generally, and maintaining investment levels in trade-related infrastructure as required by the Almaty Programme of Action. This issue will be taken up in greater detail below.

3.5.2 The International Monetary Fund (IMF)

The IMF has been the main institution charged by the G20 with the task of providing financial and policy assistance to developing countries (G20, 2009). In that regard, the Fund has also been the largest recipient of the largesse of the G20. Its lending resources have been tripled to $750 billion (from $250 billion), Special Drawing Rights (SDR) allocations are to increase by $250 billion, and a further $6 billion is to be made available for concessional and flexible finance to the poorest countries.

To meet the new financing needs, IMF also refurbished a pre-existing facility for emerging market economies, the Flexible Credit Line (FCL), meant for countries that the Fund deems to have very strong fundamentals (IMF, 2009c). The FCL now consists of a single upfront disbursement of funds which the country can choose to use or keep as insurance. For other developing countries, the Fund upgraded its Exogenous Shocks Facility (ESF) to provide more quick-disbursing and less conditioned finance to countries facing adverse external economic conditions not of their own making (IMF, 2009d). This facility, too, is only available to countries the IMF deems to have a “good” track record in terms of macroeconomic policy. For countries with Poverty Reduction and Growth Facility (PRGF) in place, the IMF may choose simply to augment that facility to reflect the new challenges these countries face (IMF, 2009b). For countries without a good track record (and no PRGF in place), the Fund offers only its traditional instruments: The PRGF, a concessional financing facility for IDA-eligible countries, and the Stand-by arrangement, utilized mostly by middle and high-income countries.

Since most developing landlocked economies fall within the low-income-country group, this stance is of particular concern. The PRGF is not a quick-disbursing arrangement and it is meant specifically to address macroeconomic challenges that are due more to internal policy incoherence or inconsistency than changes in external conditions not of the country’s making. The Stand-by arrangement is quick disbursing but not a concessional facility and may thus be inappropriate for most landlocked developing economies, particularly under current conditions.[5] While it is understandable that the Fund would be reluctant to provide weakly-conditioned assistance to countries whose macroeconomic policy stance and record it deems less than ideal, it must also be recognized that these countries are just as blameless for the transmitted effects of the current crises as those (ESF-eligible) countries whose macroeconomic policy record are deemed appropriate. If the Fund is to fulfill the role assigned to it by the G20, it will need to develop an appropriate means of meeting those countries’ need for assistance without appearing to endorse their macroeconomic record.

3.5.3 The World Bank

Like the IMF, the World Bank, too, has developed new facilities and repackaged old ones in order to address what it sees as the main areas of concern in the current and coming years. Given the stated objectives of those facilities, one can identify five broad intervention rationales in the Bank’s responses (World Bank, 2009b).

(i) Dealing with Distresses Banking and Liquidity Crises in Emerging Market (and other) Economies

[5] That is, countries face challenges due almost completely to policy errors emanating from advanced economies.

- **The Global Equity Fund** – An International Finance Corporation (IFC) facility meant to utilize a total of $1 billion over three years to recapitalize systematically important banks in emerging market economies.
- **Special Multinational Guarantee Agency Guarantees –** Guarantees to foreign banks that make loans to subsidiaries in developing and transition economies.
- **Increased Political Risk Insurance Capacity for Bank Lending** – A total of $3 billion of political risk insurance capacity for bank-lending in Eastern Europe.
- **Shift in the Focus and Extent of Advisory Services** – A scaling-up and refocusing of IFC advisory services to financial institutions and governments (up to $40 million over three years) to assist in improving management and governance within financial sector firms and the regulatory framework provided by governments.
- **Improving Insurance –** a Multilateral Investment Guarantee Agency (MIGA) initiative to front transactions and partner with private and public sector reinsurance partners to encourage greater investment, thereby leveraging faster and greater insurance capacity.

(ii) Providing Support for Trade Finance

- **An Expanded Global Trade Finance Program (GTRP)** – A doubling of the trade finance program offered by the IFC (to $3 billion over the next three years), which provides guarantees that cover the payment risk in trade transactions financed by local banks in emerging market economies.
- **A Global Trade Liquidity Program (GTLP) -** A new IFC program that raises funds from international finance and development institutions, governments, and banks, and channels these funds through global and regional banks to be used to extend trade finance to importers and exporters in developing countries.

(iii) Increasing Resources for Protection of the Most Vulnerable

- **The Vulnerability Financing Facility** – A facility that organizes, under one umbrella, two pre-existing facilities, the Global Food Crisis Response Program (GFRP) and the Rapid Social Response Program (RSR), to provide rapid releases and frontloaded concessional assistance to (mostly) IDA countries to support public spending on infrastructure, education, health and social safety net programs meant to reduce the impact of the economic crisis on the most vulnerable sectors of the population. The facility intends to use a blend of funds from the IDA, IBRD surplus, and Multi-Donor Trust Funds. That funding is expected to exceed the $1.2 billion currently available to the GFRP, but the precise amount of available funding is not yet clear.

(iv) Increased Support for Infrastructure Programs

- **The Infrastructure Recovery and Asset Platform (INFRA)** – Planned lending (of up to $45 billion by the IBRD) to finance public spending on infrastructure projects.
- **The Infrastructure Crisis Facility** – An IFC-sponsored facility meant to provide funds for rollover financing and recapitalization of valuable private-sector-financed infrastructure projects. The IFC expects to mobilize up to $10 billion in funding for this facility.

(v) Support for Small- and Medium-Size Businesses

- **The Microfinance Enhancement Facility** – A new IFC facility meant to provide refinancing (totalling $500 million) to more than 100 microfinance institutions in up to 40 of the world's poorest countries. It is expected to provide small loans to up to 60 million low-income borrowers**.**

- **Political Risk Coverage for African Investment** – The provision of up to $150 million in political risk coverage of planned investments by the African Development Corporation by MIGA.

In broad terms, the range of instruments that the Bank has lined up to address the fallout from the ongoing crises is comprehensive and impressive. At first blush, the emphasis of these facilities (particularly with respect to the assurance of trade finance and the maintenance of, and investment in, physical infrastructure), appear to be quite well-suited to the particular needs of landlocked developing countries. However, both country eligibility and the amount of resources to be mobilized are cause for concern. With respect to trade finance, the GTRP is limited to financial institutions in emerging market economies and, therefore, not available to most landlocked developing countries. The GTLP may be available to financial institutions in landlocked developing countries (though this has not been clearly spelled out), but it is not clear whether resources mobilized for this facility will be substantive. With respect to financing for infrastructure, INFRA, as an IBRD facility, provides financing to public-sector projects in IBRD-borrowing countries (rather than IDA-borrowing countries) – a group that includes only a minority of developing landlocked economies. The Infrastructure Crisis Facility, as an IFC facility, provides financing only to private-sector entities. There is a clear funding gap with respect to public spending for infrastructure in IDA-borrowing countries (a group to which most landlocked developing countries belong).

The Vulnerability Financing Facility (VFF) appears ideally-suited for helping landlocked developing countries address the challenge of protecting the most vulnerable population, and maintaining the gains achieved with respect to the Millennium Development Goals. However, the funding for this facility remains uncertain (to put it generously). There has been little sign that the proposal by the World Bank President, that advanced economies dedicate 0.7% of their economic stimulus packages to this facility, is being taken up with any consistency. When juxtaposed against the threefold increase in the IMFs resources, this funding gap remains worrisome and calls into question the commitment of the international community to the most vulnerable – particularly in light of the fact that many of the landlocked developing countries in Africa, in particular, are not on track to meet MDG objectives.

The argument here is not that IMF resources cannot reach the most vulnerable in low-income countries. Rather, that it is neither the most efficient of effective route for addressing human development challenges. Over the past decades or so, the World Bank has been the leading institution in the global efforts at poverty reduction in low-income countries, while the IMF has continued to be mainly concerned with macroeconomic stability. Any effort that biases resources too strongly in favour of the IMF is likely to underachieve in addressing human-development-related challenges.

3.6 The Regional Development Banks

Regional development banks can bring much value added to the task of addressing the effects of the global financial and economic crises on landlocked developing countries (as well as others). Their greater knowledge of these countries can allow them to better direct financing, technical assistance and policy advice to these countries. They are also better placed to direct and coordinate regional or multi-country endeavours, which are critical to landlocked developing countries whose fortunes are so closely tied to that of their neighbours. These institutions have also had a higher profile in the development of transportation infrastructure and, therefore, with ensuring achievement of the objectives of the Almaty Programme of Action. Moreover, for low- income countries, the additional resources that they mobilize are important for maintaining any momentum gained in improving human development outcomes.

All of the three major regional banks for the developing regions, namely the Asian Development Bank (ADB), the African Development Bank (AfDB) and the Inter-American Development Bank (IDB), have indicated their intent to respond to the crisis by increasing available resources to regional member countries and making policy adjustments. However, there are significant differences in both the degree and quality of their responses. The ADB has proposed a substantial deployment of resources and detailed a broad range of actions. The IDB, by contrast, has taken a more ad hoc approach. While it has announced resource deployments, there is little detail on proposed actions. . The AfDB has detailed a plan of action that is more explicit than the IDB proposals, but less comprehensive than the program put forward by the ADB.

A caveat is necessary here. While the participation of these institutions in mitigating and addressing the effects of the crises is both necessary and welcome, there is no indication that their intervention can go very far in correcting some of the imbalances noted in the World Bank and IMF proposals. Funding for IDA-eligible countries still seems either limited or uncertain, and only the ADB has directly targeted the maintenance and enhancement of transportation infrastructure. Only in the area of trade facilitation is there a clear indication that all three institutions have identified this as a potential problem, and targeted funding and other interventions accordingly. However, even in that context, it is not clear that resource will be adequate.

3.6.1 The Asian Development Bank

The Asian Development Bank (ADB) plans to increase its lending by more than $10 billion over the next two years (2009-10) through a combination of: fast-disbursing and frontloaded policy-based loans; increased project financing; and technical-assistance grants (ADB, 2009a). The policy-based financing will largely be delivered through a new Countercyclical Support Facility, meant to channel fast-disbursing loans to middle-income developing Asian countries ($3 billion), and an increase in (frontloaded) concessional loans and grants to low-income Asian countries ($0.8 billion) (ADB, 2009a).

Complementary to the increased financing, the ADB also proposes to institute several operational adjustments and policy changes aimed at improving countries' ability to deal with the crisis, protecting human development gains, and ensuring that long-term development goals are not compromised (ADB, 2009a). These planned enhancements and adjustments include:

- Increasing the ADB's share of project financing in new and ongoing infrastructure projects, and simplifying feasibility and approval processes to protect current levels of infrastructure development and maintain its growth momentum;
- Increased promotion of social spending (in areas such as rural-employment programs and cash-transfer schemes) to reduce the adverse social impact of the crisis;
- Provision of additional technical assistance and technical assistance funding to member governments to help in critically-important areas, such as the management of the fiscal challenges created by the crisis, and the development of public-private partnerships to enhance investment;
- Increased guarantees for trade financing and for borrowing by systemically important financial institutions;
- Increased support of regional research, policy analysis and dialogue;
- Increased Policy guidance to regional governments.

3.6.2 The Inter-American Development Bank

The rather comprehensive program promulgated by the Asian Development Bank contrasts sharply with the much less structured approach taken by the Inter-American Development Bank. In October of 2008, the IDB announced the establishment of a $6 billion liquidity facility for the region. This facility, in combination with similar (but smaller) facilities offered by other regional multilateral agencies, was aimed at providing credit to regional banks facing difficulty in accessing foreign and inter-bank credit lines because of the global credit crunch (IDB, 2008a). The facility would be available to banks in all borrowing member countries.

In December of 2008, the IDB announced that the Multilateral Investment Fund (MIF), an autonomous fund administered by the IDB, would provide up to $20 million to the Emergency Liquidity Facility (ELF) to assist cash-strapped microfinance institutions (IDB, 2008b). The ELF acts as a lender of last resort to microfinance institutions dealing with liquidity (rather than solvency) challenges.

In April of 2009, the IDB announced that it would participate in a joint effort with other regional multilateral institutions and the World Bank to provide $90 billion over the next two years to reduce the impact of the crises on the region (IDB, 2009a). The institutions pledged to coordinate their crisis-response initiatives and look for opportunities for partnership in addressing the challenges facing the region. The precise nature of the initiative these resources will support has yet to be outlined.

While these announced initiatives indicate an awareness of the problem and a desire to devote resources to helping member countries, the ad hoc nature of the response of the IDB suggests that it has not yet developed a coherent strategy for assisting its members. The delay in coming up with a comprehensive strategy may well reduce the efficacy of the IDB's efforts. It also gives the impression, intended or not, that the IDB is far less focused on the crisis and its implications than its counterparts in Asia and Africa.

3.6.3 The African Development Bank

Like the Asian Development Bank, the African Development Bank (AfDB) has outlined a detailed approach to the crisis. However, the range of proposed adjustments is not as extensive or as clearly defined as is the case for the ADB. Moreover, as of March 2009, the AfDB had not yet determined the precise extent of its support for it poorest members.

The AfDB plans to increase available resources to countries and institutions within the region largely through two new instruments: a $1.5 billion Emergency Liquidity Facility (ELF) and a $1 billion Trade Finance Line of Credit (AfDB, 2009). The Emergency Liquidity Facility will provide (quickly approved and disbursed) emergency liquidity to clients facing unexpected funding shortfalls due to the financial crisis. It will be made available to the Central Banks of middle-income African countries and non-sovereign clients in low-income African countries. The Trade Finance Line of Credit is expected to provide resources that can be used by African commercial banks and development finance institutions to support trading activities.

In addition to these funding initiatives, the AfDB also proposes to make its operations more responsive to the needs of borrowing member countries during this period of crisis by reducing restrictions on the use of already-approved loans and grants, improving the speed of approval and disbursement of funds, and looking for ways to improve the amount of resources available to its poorer members (those countries eligible for concessional African Development Fund (ADF) financing). However, neither the timeline nor targeted resource amount were indicated.

Given that, among the regional development banks, the AfDB serves the largest number of low-income countries, this lack of specificity is of particular concern. While it is accepted that part of this lack of specificity derives from the fact that the procedure for enhancing ADF resources is complex and formal, this cannot be the whole story. If there are indicators that this process is being abbreviated with some urgency, they are not very strong.

3.7 The Domestic Challenge: Responding to External Shocks

On the face of it, the appropriate response to the crises does not vary radically between landlocked developing countries and developed economies. Available evidence does support the view that, where the policy space is available, expansionary fiscal and monetary policies have been most successful in mitigating the domestic output effects of externally-induced crises (IDB, 2009b). However, for low-income countries (and perhaps all countries) the qualifier – the available policy space – may be as important as the policy option. Thus, individual country conditions matter (both in terms of the manifestation of the crises and the pre-existing economic and institutional context) as well as the availability of external resources.

In a summary of studies of Latin American countries facing sudden contractions in external funding, Cavallo and Izquierdo (2009) conclude that the evidence indicates that countries that were able to engage in expansionary fiscal and monetary policies were best able to reduce the extent and time-span of the net output effect, while countries that engaged in tight fiscal and monetary policies had exaggerated effects. However, they caution that the evidence is silent on whether expansionary policies in the face of weak domestic conditions (structural deficits, thin foreign reserve coverage and highly inflationary conditions) would have been equally successful. It remains distinctly possible that expansionary policies, under these conditions, would likely have made matters worse. This is, more or less, the position taken by the IMF (2009b). Nevertheless, even the Fund, not known for its Keynesian credentials, allows that, for countries with monetary policy credibility and fiscal space, mitigation of the effects of both the financial and economic crises by pursuing expansionary fiscal and monetary policies is advisable (IMF 2009b).

However, even for developing countries with this freedom, ADB (2009a) correctly advises that such policies, to be most effective, should be tailored to the specific country conditions and targeted to maximize desirable outcomes. More specifically, the nature of the response should be cognisant of the country's area of vulnerability (and therefore the likely route through which the economy will be affected) and the particular institutional strengths and weaknesses. For example, commodity-rich countries that may have built up some fiscal reserve but face uncertain monetary conditions, limiting expansionary policy to the fiscal side may be optimal. In terms of targeting, for landlocked and transit economies, an emphasis on maintaining existing transportation and communication infrastructure and protecting new and ongoing investment in such infrastructure (and other trade-related investment), will be critical in adhering to the Almaty Programme of Action. Nevertheless, for all countries, enhancing programs that protect the most vulnerable have the dual advantage of large demand effects and the protection of human development gains.

Countries that that do not have the preconditions for non-destabilizing expansionary policy are, nevertheless, not completely without options. While these countries may face binding constraints, in terms of expanding fiscal deficits or easing monetary policy (they may, on the contrary, face the prospect of spending contractions due to falling revenues), some mitigation effects can be achieved through expenditure rationalization and increased spending efficiency (ADB, 2009a). Generally, programs that target the vulnerable can be enhanced and protected *vis a vis* other spending. For landlocked economies (and their transit country counterparts), spending on transportation (both maintenance and investment) can be protected to ensure protection and enhancement of trade. Moreover, some expansionary effect can be achieved by bringing forward externally financed projects that were already in the pipeline and speeding up those that can be brought online quickly.

More to the point, for low-income countries generally, the potential for significant mitigation of the crises effects cannot take place outside the context of official flows – and most landlocked developing economies belong to that group. For low-income countries without the fiscal or monetary room to engage in expansionary policies, external resources (particularly concessional flows) can allow, at least, for expanded deficits by providing resources that do not necessarily compromise pre-existing conditions. Even for low-income countries with the credibility and macroeconomic stability that would allow for expansionary policy, domestic resources will likely not be sufficient to generate a stimulus effect of sufficient magnitude to make a difference. For these countries too, external assistance may also be critical. In effect, the provision of appropriate levels of external assistance is likely to be critical in determining the degree to which the potential negative effects of the crises on landlocked developing countries are mitigated.

4. COUNTRY AND REGIONAL CASE STUDIES

4.1. Country Case Study: Malawi

Malawi is a landlocked and relatively small country (of 13 million persons) in South-Central Africa (World Bank, 2009c). It is relatively densely populated (by African standards) at 139 persons per square kilometre. Most of the country's land mass lies on the western shore of Lake Malawi, one of Africa's great lakes. In fact, the lake contributes 21 percent to the country's total surface area. Malawi became a constitutional democracy in 1994, following 30 years of dictatorial rule by Kamuzu Hastings Banda, its first post-independence president.

With per capita income of US$250 (in 2008), Malawi is one of the poorest countries in the world (World Bank, 2009c). Agriculture is the most important productive sector of the economy; accounting for 35 percent of GDP, 80 percent of exports and the direct or indirect source of income for 85 percent of the population (World Bank, 2009c). Malawi's main export is tobacco but it also exports tea, cotton, coffee and sugar. The country's low income level, combined with its high dependence on agricultural (commodity) exports, has had its costs. Since 1990, Malawi has had four episodes of zero or negative per capita output growth due to contractions in agricultural output (sometimes leading to the need for emergency assistance from abroad).

Following a change in government in 2004, and during yet another contraction in food and agricultural production in 2005, the government of Malawi entered into a PRGF arrangement with the IMF. Malawi's performance under the PRGF was deemed satisfactory by the Fund (IMF, 2008a). Output growth has averaged more than 8 percent since 2006, inflation fell faster than projected (though it rose in 2008 due to high oil prices), government domestic borrowing fell, in line with projections, and, though the domestic (public) debt-to-income ratio did not fall as quickly as projected, it did fall overall. The one area in which Malawi grossly underperformed was in foreign reserve accumulation. Throughout the (PRGF) period reserves persistently amounted to significantly less than one-and-a-half months of imports (IMF, 2008a). A large part of that failure derived from the terms of trade decline the country experienced, as oil prices increased well into 2008. However, the monetary authority's attempt to "manage" the exchange rate has also contributed to the precarious balance of payments situation (IMF, 2008a).

As a low-income country, whose banks have very limited levels of integration into the international financial system, the effect of the global financial crisis on Malawi's economy has been muted. The only domestic indicator of the crisis has been the fact that the major local banks have indicated greater difficulty than usual in obtaining lines of credit abroad (World Bank, 2009c). This is likely to have a limited impact on the ease of obtaining trade credit and, therefore, the ease of importing goods but little impact on exports. Conversely, given Malawi's reliance on agricultural commodity exports (Table A2), its high level of aid dependence (Table A3) and its precarious reserve situation (Table A4) it is a quintessential high-vulnerability country with respect to the adverse impacts of the economic crisis. However, in November 2009, even before the effects of that crisis can be said to have reached Malawi, the country sought IMF support in the form of its Exogenous Shocks Facility (ESF). The main motivation for this application was not the economic or financial crises but the effects of the preceding high oil and commodity price regime. Even though world oil prices had fallen by then, Malawi was still receiving oil whose price had been negotiated under the earlier high-price regime. Given (foreign) reserve coverage of only 1.1 months of imports as late as September of 2009 (IMF, 2008a), the government's perceived need for assistance is understandable.

The ESF will provide Malawi with 52.05 DSR million ($79.14 million) over one year, disbursed in three tranches. The stated purpose of the ESF arrangement is to rebuild Malawi's reserve buffer. In that regard, the policies agreed to between the government and the IMF, amount to a restrictive monetary and fiscal policy regime. The government agreed to reduce the rate of money growth to below the nominal rate of growth of output - partly in continued pursuit of a 5 percent inflation target over the medium term, even if the current levels, at below 10 percent, was expected to fall with falling oil prices (IMF, 2008a). The government has also committed itself to maintaining a downward trend in domestic borrowing and pushing the net domestic debt below 13 percent of GDP (IMF, 2008a).

Despite this policy stance, Malawi is expected to achieve a growth rate of 7.1 percent of GDP (down from a 2008 growth rate of 9.7 percent) as a result of favourable harvests (IMF, 2008a; 2009f). However, if Malawi faces a sharp drop in the price of its exports and, possibly, a reduction in aid flows, this policy stance, if maintained, will amount to pro-cyclical economic policy. Within this restrictive regime, the only policy option left to the government (for reducing the procyclicality of the policy stance) is an expansionary fiscal policy based on external borrowing. However, Malawi has no access to international capital markets, so its only options are concessional bilateral or multilateral flows. In effect, mitigating any negative effects of the economic crisis will mean obtaining additional, quick-disbursing, concessional assistance (i.e. increasing the flow of aid beyond the current arrangement), but under less restrictive conditions.

4.2. Regional Case Study: Central Asia

Central Asia is a region with a large number of landlocked economies and strong intra-regional economic links. As noted earlier, these links can serve to mitigate or exacerbate the effects of external shocks on these economies. In this particular case, however, the outcomes have mostly been in the direction of exacerbation of the effects of the global financial and economic crises.

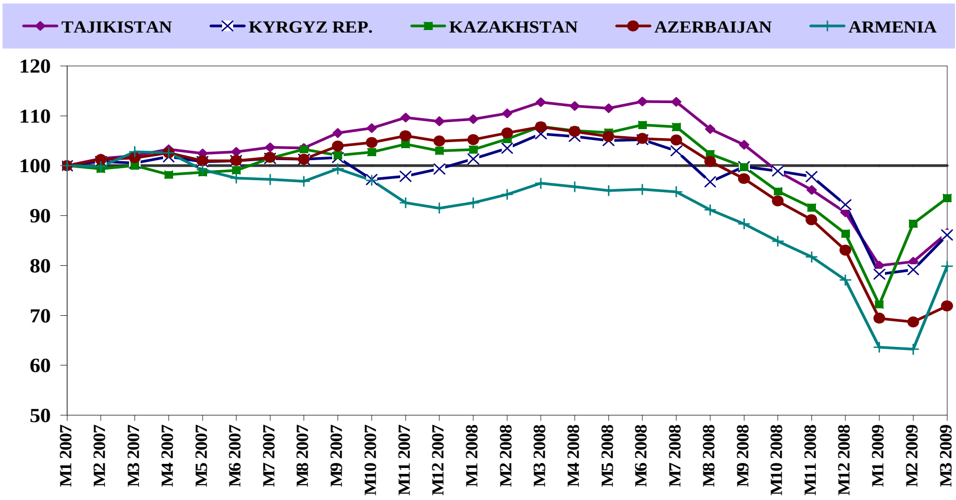
To a certain extent, the legacy of the Soviet Union lives on in the tight economic links between the countries of the region and the economic and political centrality of Russia, the regions largest economy.[6] This has meant that the landlocked countries of the region can expect to experience the effects of the global financial and economic crises directly, through some of the routes mentioned earlier, as well as indirectly, through its effects on Russia and other, more integrated, economies.

As shown earlier, the Russian economy has been one of the large, regionally-important, economies most strongly affected by the combined effect of financial and economic crises. Russia has suffered from the credit crunch as some of its banks have had difficulty obtaining credit abroad (McDonough, 2008). This has been exacerbated by a reversal of capital flows caused by the war with Georgia, concerns about the direction of economic policy, and the monetary authority's move to a more freely floating rouble (McDonough, 2008). Moreover, as a largely hydrocarbon-based economy, Russia's exports receipts have contracted sharply and are expected to continue to fall through 2009 with falling oil and other commodity prices. Foreign direct investment has contracted as well (Economic Intelligence Unit (EIU), 2009a). This has meant a contraction in domestic demand that is expected to lead to a real output contractions in 2009 and 2010 (IMF, 2009a). These effects are expected to be transmitted to neighbouring countries in several ways. As unemployment increases in Russia, remittance flows to neighbouring countries will contract. The fall in domestic demand will lead to a fall in Russia's imports from its neighbours. Russian firms are likely to delay or cancel foreign direct investment ventures in neighbouring countries as they face less rosy outlooks for sales and profits as well as constrained access to credit. Additionally, Russia is a major source of official flows (both concessional and non-concessional) to its neighbours and a reduction in these flows would also have a significant impact on these countries' economies (IMF, 2009g).

The most immediate impact, however, has been the sharp depreciation of the Russian rouble - the result of a shift to a more freely floating rouble. This has affected the competitiveness of exports from Central Asian economies to Russia and reduced the domestic value of remittances from Russia (Figure 7). Matching currency depreciations will likely be the eventual result but currency depreciations can themselves have short run adjustment costs.

[6] The Russian Federation, as a country, is generally considered to be in Eastern Europe. However, because of its size the country itself occupies Eastern Europe, Central Asia and East Asia. It is thus an important country in all three regions but is most dominant economically in Central Asia.

FIGURE 7: INDICES OF THE DOMESTIC VALUE OF THE RUSSIAN RUBLE (January 2007 = 100)



Source: Author's calculations using data from International Financial Statistics (IMF)

After experiencing a decline in growth from 12 percent in 2007 to 6.3 percent in 2008, the Central Asian region (including both landlocked and non-landlocked economies) is expected to reach a nadir of 0.9 percent growth in 2009 and recover to a modest growth rate of 5.0 percent in 2010 (IMF, 2009g). Since landlocked countries form a majority of the region's countries, the evolution of growth in the landlocked economies of the region (as a group) is expected to follow that pattern quite closely. These economies (Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) grew at 12.6 percent in 2007 and 6.2 percent in 2008 and are projected to grow at only 1.3 percent in 2009 and 5.2 percent in 2010 (Table 4). However, these averages mask very diverse experiences for the seven economies. The experiences of these countries vary with their trade profile, the nature of their economic links with the rest of the world, and their links to Russia and other regional economies (notably, Kazakhstan).

Table 4: Landlocked Countries in Central Asia: Real GDP Growth

Countries	2006	2007	2008	Projected 2009	Projected 2010
Armenia	13.2	13.8	6.8	-5.0	0.0
Azerbaijan	30.5	23.4	11.6	2.5	12.3
Kazakhstan	10.7	8.9	3.2	-2.0	1.5
Kyrgyz Republic	3.1	8.5	7.6	0.2	2.9
Tajikistan	7.0	7.8	7.9	2.0	3.0
Turkmenistan	11.4	11.6	9.8	6.9	7.0
Uzbekistan	7.3	9.5	9.0	7.0	7.0
Landlocked Country Average (Weighted)	14.1	12.6	6.2	1.3	5.2

Source: Reproduced from Regional Economic Outlook: Middle East and Central Asia, May 06 (IMF).

Two of these six countries are expected to have significantly more acute economic downturns than the regional average, but both the immediate reasons for the more heightened effect and the expected route to recovery vary between the two countries. Armenia is one of three landlocked countries (the others being the Kyrgyz Republic and Tajikistan) that are not hydrocarbon-based economies. Nevertheless, this country experienced double-digit growth from 2002 to 2007. That growth was largely generated by high levels of FDI and remittance flows and strong export growth (EIU, 2008). All of these elements bear a strong Russian footprint. Russian firms account for a significant proportion of FDI, most of the remittances come from migrants in Russia (Table A6), and Russia is Armenia's primary trading partner (Table A1). It is, therefore, not surprising that the projected 6 percent contraction in the Russian economy is coincident with a 5 percent contraction in the Armenian economy (IMF, 2009g). Moreover, Armenia does not appear to have a great deal of scope for mitigating these effects with its own resources. Despite strong inflows, its fiscal balance has been negative over the last five years and its reserve situation is quite precarious, with reserves covering less than two months of imports in 2008 (EIU, 2009b). Any countercyclical policies will have to come from some combination of external and internal borrowing.

Kazakhstan's economy too has been projected to contract in 2009. However, unlike the situation for Armenia, that economic outcome has a direct causal link with the global financial crises. As a hydrocarbon-based economy (Table A2), Kazakhstan benefitted tremendously from the high oil prices of the past few years. During that period, Kazakh banks borrowed heavily abroad to take advantage of high rates of return in Kazakhstan's booming economy (ADB, 2009b). They were also active in the Russian economy (IMF, 2009g). Since the beginning of the credit crunch in mid-2007, these banks have had difficulty obtaining new credit or rolling over existing debt. This situation has only worsened as both the Kazakh and Russian economies felt the effects of the drop in commodity prices. In early 2009, two of Kazakh's largest banks were nationalized as the country faced a major financial crisis (ADB, 2009b). Having maintained a positive fiscal balance over the past several years, the Kazakh government is in quite a good fiscal position in comparison to most of its neighbours but it is also facing some hard decisions. The country has a healthy foreign reserves balance but it already faces a very high debt service burden (Table A5); making external financing a less attractive option than it would otherwise have been in this context. Staying afloat may mean using up most of its fiscal and foreign reserve legacy. The country also has to repair (or reconstruct) a seriously impaired banking system.

The recent Kyrgyz economic experience is an example of the potential drawback of having an economy that is, perhaps, too strongly linked to regional neighbours that are, themselves, quite vulnerable. Russia is the Kyrgyz Republic's most important trading partner, and Kazakhstan is its third most important trading partner (EIU, 2009c). The country also receives large amounts of remittances from migrants in both of these countries (Table A6). Further, most the Kyrgyz Republic's banks are subsidiaries of Kazakh banks (ADB, 2009b). This situation has made the effects of the global financial and economic crises both acute and complex for the country. Though the Kyrgyz economy is commodity export-dependent (Table A2) it is not a hydrocarbon-based economy. This has meant that rising fuel and food imports have kept pace with or outstripped the increased value of exports (EIU, 2009c). With falling remittance receipts in late 2008 the country faced a widening balance of payment deficit. This was further complicated by contracting domestic credit due to the knock-on effects the banking crisis in Kazakhstan. The country was thus the second country to apply for, and receive, assistance under the Exogenous Shocks Facility (ESF) from the International Monetary Fund (IMF, 2008b). Though growth is expected to be significantly lower in 2009, it is not expected to be negative. However, recovery is likely to be slow because neither the Kazakh nor Russian economies are expected to recover quickly (Table 4 and Figure 6).

Tajikistan, like the Kyrgyz Republic, is also a highly vulnerable country. This country's economy is also not a hydrocarbon and so it too has faced high import prices for these products in recent years. However, Tajikistan has managed to sustain high growth rates because of high demand for its main export, aluminum, particularly in China (EIU, 2009d) and large remittance flows from its migrants in Russia and Kazakhstan. However, the global economic crisis (and an appreciating currency) has meant that the value of remittance flows have contracted and the demand and price for aluminum have fallen. Growth is expected to fall to 2 percent in 2009 from nearly 8 percent in 2008 (Table 4), and remain low (at just below three percent) in 2010. Tajik authorities are not particularly well placed to mitigate the crisis effects without external assistance. This is the poorest country in the region; its foreign reserves (in months of imports) was the second lowest recorded for landlocked economies in 2008 (Table A4) and its debt burden is high (Table A5). Further, the country has carried a negative fiscal balance over most of the past few years (IMF, 2009g).

As a hydrocarbon-based economy, Azerbaijan has benefitted, not only from the high oil prices of the last few years, but also from the high level of foreign direct investment attracted to its still growing hydrocarbons sector (EIU, 2009e). However, in 2008 the country had to deal with the conflict between Russia and Georgia (which interrupted its oil and gas exports which transit through Georgia), as well as a sharp fall in oil prices. Continued low oil prices and a likely contraction in foreign direct investment is expected to lower growth in Azerbaijan in 2009, but only to the lower single digits in comparison to previous double-digit levels (Table 4). However, recovery is expected to be swift. The Azerbaijani authorities have the benefit of a substantial reserve cushion (Table A4), a low level of public debt and substantial fiscal resources built up over the high-oil-price period (EIU, 2009e).

Two of the landlocked economies (Turkmenistan and Uzbekistan) are expected to experience growth levels in 2009 that are only slightly below the moderately high levels of 2008. Both countries have been somewhat protected by their limited level of integration into the world economy, as well as the luck of their export profiles. Turkmenistan is a hydrocarbon-based economy, but more then 50 percent of its exports consist of gas, whose price has fallen much less than that of oil (IMF, 2009g). Also, Turkmenistan is not a large recipient of remittances. Uzbekistan receives substantial amounts of remittances (from migrants in Russia and Kazakhstan) and the overall values of these remittances fell with the depreciating Russian rouble in 2008. However, Uzbekistan is also an emerging gold producer and the price of gold has remained high over the last two years (EIU, 2009f) allowing the country to make up for the lost revenue from remittances. Thus, to some degree, fate has smiled on both of these countries.

5. CONCLUSION

For developing countries, the very fact of being landlocked implies special challenges, particularly with respect to trade. Transportation costs are higher and the quality and reliability of transportation is dependent on factors outside the immediate sphere of influence of the landlocked country. These factors, as well as other attributes of being landlocked, mean that development presents unique challenges for landlocked developing countries. It is this concern that motivated the Almaty Programme of Action, which seeks to develop and maintain momentum in improving trade and transport access for these countries and securing those gains, with the overarching objective to establish efficient transit transport systems in all developing landlocked regions.

As the world faces a financial crisis - induced by inadequate financial regulation in advanced economies combined with innovation in financial instruments that exacerbated information asymmetries and shifted behavioural incentives - and a resulting economic crisis that has seen negative growth in most advanced economies since the middle of 2008, there is, justifiably, great concern about the implications for landlocked economies; both in terms of output effects and the short and long-terms trade and transportation effects.

Indeed, that concern is well placed. Landlocked developing economies are more likely to be highly dependent on primary commodity production, aid receipts and remittances from migrants abroad. All of these factors make them significantly more vulnerable to the effects of the financial and economic crises which are likely to be transmitted to these economies through a credit squeeze, trade financing difficulties, and external demand shock that may be manifested in some combination of a contraction in market and non-market financial flows and the collapse of export demand and commodity prices.

The G20 has taken up the challenge of addressing these crises, but gaps remain in terms of the degree of commitment to coordinated fiscal policy responses and the way forward in terms of re-establishing a sound international financial system. The International Monetary Fund has seen a tripling of its lending resources and it has outlined some initiatives to support countries hit by the crisis. However a significant gap remains, in terms of the modality and extent through which the Fund intends to support low-income countries that it does not deem to have adequate track records but which are, nevertheless, victims of crises that they, demonstrably, had no hand in creating. Several landlocked developing countries fall within that category.

The World Bank has outlined an extensive program for addressing crisis effects on developing countries. Moreover, the outlined programme pays specific attention to trade facilitation and the maintenance and further development of transport infrastructure – directly addressing some of the core concerns of the Almaty Programme of Action. However, while the resource commitment for addressing those issues in emerging market economies is explicit, that for addressing the same issues in low-income developing countries (the group to which most landlocked developing countries belong) is not. The resource commitment for protecting the most vulnerable and protecting past human development gains in low-income countries also remains unspecified and uncertain.

The Regional Development Banks have approached these crises with, what appears to be, varying degrees of resolve. While the Asian Development Bank has outline a comprehensive program of action not unlike that of the World Bank, the Inter-American Development Bank has not yet gone beyond the occasional proposition of broad initiatives. The African Development Bank falls somewhere between. It has a plan of action in place but its programme is a great deal less comprehensive than that of the Asian Development Bank. There is, nevertheless, some consistency across these institutions in the recognition and attempts to address the shortfall in trade finance but, like the World Bank, these institutions provide no clear indication of the amount of concessional resources that can or will be mobilized to assist low-income countries. This is, of course, partly an institutional problem related to the fact that the cycle for replenishment and expansion of resources for concessional financing is fixed and supplementation is not institutionalized (at least not in the way that supplementing non-concessional financing is) but that does not change the fact that this uncertainty makes it unclear what lies ahead for the majority of landlocked developing economies in terms of both the nature and extent of assistance from multilateral institutions. This uncertainty is of particular concern given the unquestioned need that is likely to arise, and the likelihood that bilateral assistance will be constrained (if not contracting) in the coming years.

The diversity among landlocked developing countries means that some countries will be better off than others. Almost all landlocked developing countries can expect a drop in the rate of growth of output but, for a few, the rate of growth may still be moderate in 2009. For the majority of landlocked developing countries, however, the drop in output will be substantial and, without mitigation, the consequences for general welfare and continued investment in and maintenance of transport and related infrastructure can be quite negative in the short run with potential long-term costs as well.

Though the use of countercyclical monetary and fiscal policies to mitigate the effects of these crises is accepted (by the IMF) as a valid approach for low-income countries that have built up the necessary macroeconomic and institutional precondition, these countries will typically need additional external resources if these programs are substantial enough to mitigate output contractions and welfare losses. Those countries that have not built up the necessary preconditions will have an even greater need for external assistance because only countercyclical policy, underpinned by an external resource injection, is likely to avoid the high price of further macroeconomic instability. In effect, most landlocked developing countries can fully expect to be significantly affected by the crisis, but the degree to which the international community will support efforts at mitigation remains critical but frustratingly unclear.

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Appendix A:

Table A1: Analysis of Export Destinations in 2008

Countries	Exports to Advanced Economies (% of total)	Neighboring Countries in the first two favored destinations			
		First	% of Exports	Second	% of Exports
Region: West Africa					
Burkina Faso	42.65				
Chad	**95.67**				
Mali	22.73				
Niger	**88.79**			Nigeria	8.45
Region: Central and Southern Africa					
Botswana	-				
Burundi	**51.59**				
C.A.R.	**66.79**				
Ethiopia	**52.59**				
Lesotho	-				
Malawi	40.86	South Africa	10.60		
Rwanda	25.08				
Swaziland	-				
Uganda	**58.90**				
Zambia	**52.78**			South Africa	10.59
Zimbabwe	26.88	South Africa	36.05	Congo, Dem. Rep.	8.93
Region: South America					
Bolivia	34.28				
Paraguay	21.23	Argentina	26.28	Uruguay	14.27
Region: Eastern Europe and Central Asia					
Afghanistan	36.47	India	21.11	Pakistan	20.16
Armenia	**52.06**	Russia	20.68		
Azerbaijan	**77.74**				
Kazakhstan	43.74	China	14.71		
Kyrgyz Rep.	26.20	Russia	18.54		
Macedonia	**52.83**	Serbia &	20.53		
Moldova	27.42	Russia	25.04	Romania	16.05
Tajikistan	**61.22**				
Turkmenistan	7.52	Ukraine	40.47	Iran	16.13
Uzbekistan	18.13	Russia	26.56		
Region: South and East Asia					
Bhutan	-				
Lao, PDR	19.82	Thailand	34.71	Vietnam	13.17
Mongolia	19.07	China	76.07		
Nepal	20.67	India	67.69		

Source: Direction of Trade Statistics, IMF (online version).

Table A2: Dependence on Commodity Exports (Average 2003-2007)

Country	Agricultural Products	Country	Ores and Metals	Country	Fuels	Country	Pearls, Precious Stone etc.	Country	Commodity Exports
Burkina Faso	88.06	Turkmenistan	83.00	Azerbaijan	82.196	Botswana	77.75	Botswana	97.60
Malawi	86.23	Zambia	72.97	Chad	74.379	Mali	65.94	Mongolia	94.09
Paraguay	85.06	Mongolia	56.58	Kazakhstan	66.639	Kyrgyz Republic	31.54	Niger	94.00
Ethiopia	84.40	Niger	55.00	Bolivia	43.779	Armenia	25.67	Bolivia	93.56
Burundi	78.07	Rwanda	34.80	Kyrgyz Republic	15.459	Uzbekistan	25.22	Rwanda	92.67
Uganda	76.20	C.A.R.	26.76	Uzbekistan	15.390	C.A.R.	23.16	Ethiopia	91.83
Moldova	63.74	Armenia	22.52	Macedonia	6.481	Mongolia	20.16	Zambia	90.97
Rwanda	54.33	Zimbabwe	21.88	Mongolia	5.408	Lao PDR	12.65	Azerbaijan	90.79
Mali	38.96	Bolivia	20.78	Rwanda	3.397	Niger	7.49	Burkina Faso	90.73
Zimbabwe	37.04	Botswana	16.97	Uganda	2.581	Uganda	6.99	Uganda	87.35
C.A.R.	34.37	Kazakhstan	13.89	Armenia	2.168	Zimbabwe	6.44	Kazakhstan	86.95
Niger	29.86	Kyrgyz Rep.	5.21	Burkina Faso	2.162	Ethiopia	5.61	Malawi	86.55
Swaziland	24.64	Moldova	4.40	Niger	1.654	Bolivia	5.41	Turkmenistan	86.00
Kyrgyz Republic	23.94	Nepal	4.29	Burundi	1.127	Lesotho	3.80	Paraguay	85.97
Bolivia	23.59	Macedonia	3.75	Zambia	0.996	Kazakhstan	1.65	C.A.R.	84.67
Nepal	21.67	Burundi	1.83	Mali	0.847	Zambia	1.58	Chad	79.84
Uzbekistan	19.45	Ethiopia	1.82	Zimbabwe	0.828	Burkina Faso	0.18	Kyrgyz Republic	76.15
Macedonia	16.52	Azerbaijan	1.60	Swaziland	0.799	Rwanda	0.14	Moldova	68.73
Zambia	15.43	Uganda	1.58	Moldova	0.592	Nepal	0.10	Zimbabwe	66.19
Armenia	14.05	Paraguay	0.89	C.A.R.	0.381	Macedonia	0.09	Armenia	64.41
Mongolia	11.93	Swaziland	0.36	Botswana	0.145	Malawi	0.05	Uzbekistan	60.06
Azerbaijan	6.99	Burkina Faso	0.32	Malawi	0.122	Swaziland	0.01	Macedonia, FYR	26.84
Lao PDR	5.88	Malawi	0.15	Paraguay	0.016	Paraguay	0.01	Nepal	26.07
Chad	5.47	Mali	0.13	Ethiopia	0.007	Afghanistan	-	Swaziland	25.80
Kazakhstan	4.77	Afghanistan	-	Nepal	0.004	Azerbaijan	-	Lao PDR	18.53
Turkmenistan	3.00	Bhutan	-	Lao PDR	-	Bhutan	-	Lesotho	6.67
Lesotho	2.87	Chad	-	Lesotho	-	Burundi	-	Afghanistan	.
Botswana	2.74	Lao PDR	-	Afghanistan	-	Chad	-	Bhutan	.
Afghanistan	-	Lesotho	-	Bhutan	-	Moldova	-	Burundi	.
Bhutan	-	Tajikistan	-	Tajikistan	-	Tajikistan	-	Mali	.
Tajikistan	-	Uzbekistan	-	Turkmenistan	-	Turkmenistan	-	Tajikistan	.

Source: World Development Indicators (online version); Economic Intelligent Unit (various Country Profiles and Reports)

Table A3: Capital Flows to Landlocked Economies (Average 2003-2007)

Country	Net FDI Flows (% of GDP)	Country	Aid (% of GDP)	Country	Remittances (% of GDP)
Azerbaijan	16.13	Burundi	47.92	Moldova	28.46
Chad	13.64	Afghanistan	36.10	Lesotho	26.26
Lesotho	8.056	Rwanda	23.88	Tajikistan	21.66
Moldova	7.49	Malawi	20.72	Nepal	13.73
Kazakhstan	7.44	Ethiopia	16.63	Kyrgyz Republic	10.68
Macedonia, FYR	5.74	Uganda	15.83	Armenia	8.85
Armenia	5.73	Zambia	15.11	Mongolia	7.17
Mali	5.33	Niger	14.70	Uganda	5.52
Zambia	5.16	Mali	13.83	Paraguay	3.99
Kyrgyz Republic	4.81	Burkina Faso	12.86	Swaziland	3.91
Tajikistan	4.37	Lao PDR	11.88	Macedonia, FYR	3.68
Uganda	4.04	Mongolia	10.78	Bolivia	3.64
Mongolia	3.56	Kyrgyz Republic	10.60	Azerbaijan	3.52
Ethiopia	3.47	Bhutan	10.50	Mali	3.48
Paraguay	3.26	Tajikistan	9.69	Niger	1.60
Botswana	3.21	C.A.R	7.81	Ethiopia	1.12
Lao PDR	3.17	Chad	7.76	Burkina Faso	1.03
Turkmenistan	3.08	Bolivia	7.43	Botswana	0.88
Burkina Faso	2.12	Zimbabwe	6.13	Rwanda	0.76
Bhutan	1.64	Nepal	5.97	Zambia	0.69
Zimbabwe	1.08	Moldova	5.35	Kazakhstan	0.41
Bolivia	0.88	Armenia	5.30	Lao PDR	0.04
Rwanda	0.66	Lesotho	5.26	Malawi	0.04
Uzbekistan	0.63	Macedonia, FYR	4.09	Burundi	0.01
C.A.R	0.59	Azerbaijan	2.12	Afghanistan	-
Malawi	0.43	Swaziland	1.57	Bhutan	-
Niger	0.42	Uzbekistan	1.35	C.A.R	-
Nepal	0.09	Paraguay	0.68	Chad	-
Burundi	0.03	Botswana	0.59	Turkmenistan	-
Swaziland	-0.02	Kazakhstan	0.50	Uzbekistan	-
Afghanistan	-	Turkmenistan	0.38	Zimbabwe	-

Source: World Development Indicators (online edition)

Table A4: Reserves in Months of Imports

Country	Reserve Coverage (2008)
Zimbabwe	0.2
Tajikistan	1.3
Malawi	1.3
Niger	2.3
Ethiopia	2.6
Zambia	3.2
Lao PDR	3.7
Swaziland	3.8
Central African Republic	3.9
Burundi	3.9
Macedonia, FYR	4.1
Kyrgyz Republic	4.1
Mali	4.3
Moldova	4.7
Armenia	4.7
Kazakhstan	4.8
Mongolia	5.1
Paraguay	5.2
Burkina Faso	5.7
Nepal	5.8
Lesotho	6.1
Chad	6.7
Rwanda	7.6
Uganda	7.6
Azerbaijan	8.2
Afghanistan	11.3
Uzbekistan	11.6
Bhutan	16.5
Bolivia	18.6
Botswana	24.3
Turkmenistan	-

Source: International Financial Statistics (online version)

Table A5: The Debt Burdens of Landlocked Economies

Country	Total External Debt in 2007 (% of Exports)	Country	Total Debt Services as % of Exports (Average 2006-2007)
Central African Republic	382.85	Kazakhstan	44.09
Nepal	270.48	Burundi	39.59
Lao PDR	217.20	Central African Republic	34.83
Kazakhstan	185.46	Moldova	19.28
Armenia	163.51	Macedonia, FYR	17.15
Tajikistan	160.10	Lao PDR	15.66
Moldova	159.59	Bolivia	11.31
Rwanda	149.23	Nepal	11.26
Kyrgyz Republic	143.50	Uzbekistan	11.22
Bhutan	121.45	Tajikistan	10.41
Mali	107.89	Armenia	10.37
Ethiopia	105.86	Kyrgyz Republic	9.67
Malawi	103.01	Malawi	9.25
Bolivia	90.21	Lesotho	8.63
Macedonia, FYR	89.22	Rwanda	7.76
Uganda	80.95	Burkina Faso	7.74
Lesotho	77.38	Paraguay	7.72
Mongolia	63.18	Ethiopia	6.45
Zambia	58.07	Uganda	5.44
Paraguay	57.35	Bhutan	4.14
Chad	51.70	Mali	4.14
Uzbekistan	43.10	Zambia	3.22
Swaziland	17.02	Turkmenistan	2.92
Azerbaijan	13.42	Mongolia	2.24
Turkmenistan	9.17	Chad	1.85
Botswana	6.93	Swaziland	1.82
Afghanistan	-	Azerbaijan	1.25
Burkina Faso	-	Botswana	0.98
Burundi	-	Afghanistan	-
Niger	-	Niger	-
Zimbabwe	-	Zimbabwe	-

Source: World Development Indicators (online version)

Table A6: Migration Patterns by Country and Region

Country	Stock of Emigrants (% of Pop.)	Neighboring Countries in the first three favored destinations		
		1st	2nd	3rd
Region: West Africa				
Burkina Faso	8.5	Côte d'Ivoire	**Niger**	Nigeria
Chad	1.9	Sudan	**C.A.R.**	Cameroon
Mali	9	Côte d'Ivoire	**Burkina Faso**	Nigeria
Niger	3.1	Côte d'Ivoire	**Burkina Faso**	Nigeria
Region: Central and Southern Africa				
Botswana	2.1	South Africa	Namibia	
Burundi	4.2	Tanzania	**Uganda**	**Rwanda**
C.A.R.	3.6	**Chad**	Republic of Congo	
Ethiopia	0.6	Sudan		
Lesotho	14.4	South Africa	Mozambique	Tanzania
Malawi	0.7	Tanzania	**Zambia**	
Rwanda	2.2	**Uganda**	Tanzania	
Swaziland	9.3	South Africa	Mozambique	
Uganda	0.5		Tanzania	
Zambia	1.3	Tanzania		**Malawi**
Zimbabwe	5.9	South Africa		Mozambique
Region: South America				
Bolivia	4.6	Argentina		
Paraguay	6.8	Argentina	Brazil	
Region: Eastern Europe and Central Asia				
Armenia	26.9	Russia		Ukraine
Azerbaijan	16.2	Russia	Ukraine	**Armenia**
Kazakhstan	25	Russia	Ukraine	Uzbekistan
Kyrgyz Republic	11.7	Russia	Ukraine	
Macedonia	18.2			
Moldova	16.8	Russia	Ukraine	Romania
Tajikistan	12.2	Russia	Uzbekistan	Ukraine
Turkmenistan	5.4	Russia	Ukraine	-
Uzbekistan	8.2	Russia	Ukraine	Tajikistan
Region: South and East Asia				
Afghanistan	6.8	Iran		
Bhutan	1.8	**Nepal**	India	
Laos	7.0		Thailand	
Mongolia	0.6			Japan
Nepal	2.8	India		

Source: Migration and Remittances Factbook 2008 (World Bank, 2008).

Table A7: Vulnerabilities across Large Neighboring Economies (2003-2007)

Country	Exports to Advanced Economies (% of Exports)	Primary Commodity Exports (% of Merchandise Exports)	Foreign Reserves (in Months of Import)	Short-Term Debt (as % of Foreign Reserves)	FDI and Portfolio Flows (as % of Gross Capital Formation)	External Debt (% of Exports)
Argentina	32.07	67.45	6.8	123.2	11.94	329.60
Brazil	52.50	43.58	7.2	37.5	17.76	175.94
China	78.32	8.10	13.6	17.4	9.53	34.53
India	55.88	42.41	10.25	7.9	8.58	92.37
Nigeria	74.84	97.92	8.5	20.1	14.29	56.68
Russian Federation	55.74	65.22	11.6	20.9	14.42	93.43
South Africa	65.97	59.14	2.8	60.1	21.6	49.50

Sources: World Development Indicators (online version); Direction of Trade Statistics (online version)

Appendix B

Table B1: List of Country Groups with Regional Distribution

Landlocked Developing Countries	Comparative Group of Countries	Large Neighboring Countries
Region: West Africa		
Burkina Faso Chad Mali Niger	Benin Cote d'Ivorie Ghana Mauritania Senegal Togo	Nigeria
Region: Central and Southern Africa		
Botswana Burundi Central African Republic, The Ethiopia Lesotho Malawi Rwanda Swaziland Uganda Zambia Zimbabwe	Cameroon Congo, Rep. Gabon Kenya Mozambique Namibia Tanzania	South Africa
Region: South America		
Bolivia Paraguay	Chile Colombia Ecuador Peru Uruguay	Argentina Brazil
Region: Eastern Europe		
Moldova Macedonia, FYR	Albania Bulgaria Croatia Georgia Romania Turkey	Russia
Region: Central Asia		
Armenia Azerbaijan Kazakhstan Kyrgyz Republic, The Tajikistan Turkmenistan Uzbekistan	Iran, Islamic Rep. Ukraine	Russia
South Asia		
Afghanistan Bhutan Nepal	Bangladesh Pakistan	India
East Asia		
Lao, PDR Mongolia	Cambodia Malaysia Thailand Vietnam	China