

STATEMENT ON DEVELOPMENT CHALLENGES OF THE LAND-LOCKED LEAST DEVELOPED COUNTRIES AND THEIR PARTICIPATION IN INTERNATIONAL TRADE

Introduction

It is widely acknowledged by many that Landlocked Least Developed Countries (LLDCs) face unique and daunting challenges in their endeavour for economic development. Wide array of challenges such as lack of territorial access to the sea, isolation, remoteness from world markets, and high transport and transit costs experienced by LLDCs impose serious constraints on their overall socio-economic development, including their trade competitiveness. These specific problems have contributed to entrenched poverty in many LLDCs and greatly limit their effective participation in international trade. Unless the structural problems facing LLDCs are adequately addressed, there is a real risk of relative lack of integration in the world economy. As a result, landlocked developing countries are among the poorest countries in the world.

Geographical Location- Proximity to the sea ports is the characteristic of most LLDCs. Lacking unfettered access to the to the sea, LLDCs can be shut out of many potential markets and face major obstacles if they do not have the adequate transport infrastructure needed for coastal access. For instance Malawi is about 1,800Km to the nearest port of Nacala in Mozambique. This poses huge challenges in transport systems.

Transport Infrastructure – Inadequate transport infrastructure is a major obstacle to establishing efficient transit transport systems in landlocked and transit developing countries. The deterioration of transport infrastructure also affects their efficiency. This result in LLDCs facing huge transport costs from rendering their products uncompetitive at global market. For example Malawi shoulders around 56% being transport cost in its production process. Without foreign aid, LLDCs cannot maintain and develop efficient transit transport systems. Indeed, the landlocked condition of LLDCs and the constraints it imposes on productive capacities and transport infrastructure dictate the level and pace of development and competitiveness in the international market.

A way around these costs is for landlocked countries and their coastal neighbours to enter into transit agreements that define the conditions, obligations and rights under which the parties will use the transit facilities, including transit corridors, roads, inland waterways and rail transport to facilitate trade with the least amount of problems.

International Trade Performance – Trade is engine for economic development. However, the participation of LLDCs and transit countries in international trade is not significant as it could be. The external trade of the majority of LLDCs is marginal compared with other developing countries. LLDCs trading patterns is characterised by the high proportion of primary commodities or low-processed raw materials and fuel exports.

Typically, LLDCs have a narrow production and export base, heavily dependent upon a few primary commodities, which make them particularly vulnerable to external shocks. While there are initiatives to promote export diversification and value-added processing in general, the results on the ground are poor due to a narrow manufacturing base and supply-side constraints. Malawi developed a National Export Strategy to mitigate such challenges.

Harmonisation of Legal and Regulatory Framework - It is important for LLDCs and transit countries to review and revise their legal and regulatory frameworks to embrace regional and international conventions ratified by landlocked and transit developing countries. If properly implemented these are main vehicles by which harmonisation, simplification and standardisation of rules and documentation can be achieved. Malawi is a member to COMESA and SADC and is actively involved in the regional integration agenda.

Information and Technology – IT is regarded as enabler of most production, transport and communication processes. Inadequate and outdated IT infrastructure poses huge challenge to LLDCs efficiencies. Technology and skills transfer between LLDCs and the rest of the world is very low.

Inadequate/Uncoordinated International Support – It is widely acknowledged by many development partners in assisting LLDCs to

mitigate some of the challenges faced. However, uncoordinated support, lack of technical know-how including conditionalities refrain LLDCs to access resources meant to address some development challenges.

Improving participation of LLDCs in Regional and Global Value Chains by reducing trade costs – the potential advantages for LLDCs to

participate in regional and global value chains are numerous both at macro and micro levels. There are opportunities to create jobs, increase income, improve working conditions and diversify production and exports, increase access to finance, shorten lead times, reduce operational disruptions, cut inventory, improve quality and customer service, speed innovation and reduce risk. By engaging in IVCs, small firms from LLDCs can benefit by reducing costs of entry and economies of scale. Furthermore, it has been proven that firms already exporting can benefit from engaging in IVCs by having access to superior imported intermediate inputs which can upgrade the production of outputs. Emphasis on value chains basically entails promotion of the desirability of improving development perspectives from national to regional focus and prosperity.

Secondly, the greater share of global exchange is currently carried out through value chain participation, reflecting the profound structural changes in modern manufacturing systems and their complex product and geographical interdependencies.

The economy of Malawi has about 80% of its population operating as SMEs which if clustered into productive groups or cooperatives can effectively

participate in IVCs and increase their profit margins and improve their net worth.

Measures to promote trade in LLDCs

- It is encouraged that support through Aid for Trade initiatives should be intensified so that capacity of the productive sector is built;
- Donor support should be coordinated and targeted to sectors under the Government development agenda.