UN-OHRLLS Expert Group Meeting on

Financing Infrastructure Development for Enhanced Integration of the Landlocked Developing Countries (LLDCs) into Global Trade

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The key issue is how a landlocked country should plan its development strategy in the 21st century. There are, in my view, five inter-related aspects that need to be addressed. Together, these constitute a low-cost solution and would help in enhancing domestic resources.

One is a change in the structure of production towards a greater emphasis on the production of tradable goods. Developing landlocked countries are characterised by labour intensive but low value-added goods because of the low capital intensity of production. This results in highly localised trade. The effort should be to increase value addition by the use of very light machinery so that the market can expand beyond the immediate environs of production. This will help increase incomes both of the people and the State.

The development of light and micro industry is not only less costly but also environmental friendly as its energy requirements are a fraction of medium and heavy industry. In any case global production in the latter two segments is dominated by China to such an extent that LLCs cannot realistically hope to compete at the global level. They can, however, do so at the regional level, where they have the advantage of proximity.

Thanks to changes in technology, business processes, fragmentation and localisation of markets, we must ask how relevant the 20th century notion of scale is in the 21st century. It is my belief that while it will remain relevant for certain types of industrial production, for many others it will not. Further, time is both ripe and opportune for adopting frugal technologies in resource constrained economies. In the last decade, this kind of science has had something of a renaissance – developing a host of low cost, high performance tools and systems.

It is on these aspects, the developing landlocked countries must focus not exclusively but in a significant way. Indeed, this is important opportunity for these countries in that they can invest less in supporting infrastructure, thus converting a handicap into an opportunity.

Secondly, the integration of landlocked developing countries should largely be with regional markets on their borders. This has been shown to yield immediate benefits in terms of higher incomes for the population. Even at present, for example, 80 - 90 per cent of exports and imports of Bhutan, Nepal and Afghanistan is with the neighbouring countries. The stress should, therefore, be to optimize these trade linkages. Mimicking integration at the global level would neither be cost-effective nor sustainable for these countries.

Thirdly, many LLCs are fortunate in that they are abundantly endowed with energy resources such as rivers, oil, gas and coal. They must find ways of exploiting these endowments for export to neighbours. Bhutan with its hydroelectric power export to India is hugely benefiting. Nepal can be another example. It is worthnoting that the resource rich countries are located in close proximity of resource deficit countries. For example, Central Asian landlocked countries are surfeit with energy, while South Asia is deficient.

But all this can be possible only if there is finance available which brings me to the fourth aspect: financial inclusion to bring the people into the modern banking systems so that their household savings can be intermediated for better utilisation in the economy. It is well-known that financial inclusion increases the amount of available savings and the rate of capital formation in the country.

In most of the landlocked and developing countries, large segment of people are not a part of the formal banking system. The governments should, therefore, strive to bring them into the fold of the formal banking channels. The financial inclusion encourages them not only to borrow from these channels but also to invest in various financial instruments.

It is submitted that state sponsored universal banking contributes to a greater economic diversification than is the case in the more competitive banking environments. The state has thus to play an important role in this regard. Further, the scope of financial inclusion is not limited to banking services. It also extends to other financial services like insurance, pension products, etc. The mantra has to be micro-savings, micro-insurance, micro-credit: small is beautiful and exploit its full potential.

As an illustration of the immense possibilities of financial inclusion, allow me to cite a recent case study from India. In the recent past, the government has actively encouraged and facilitated opening of bank accounts by the marginalized rural and urban poor. As a result, within a period of three years, 300 million new accounts have been opened. Importantly, these account holders have deposited nearly 6 billion US dollars in their accounts. Thus, a large amount has become available for investment in developmental works in the country.

An important collateral benefit of financial inclusion would be the integration of remittances by migrant workers and recipients into the banking systems. Presently such linkages are tenuous if not missing. Remittances investments in local development projects have a huge potential drawing on family and social linkages of the migrant workers.

This brings us to the role of multilateral and regional development banks in financing infrastructure in LLDCs. They are the only ones who fulfil all the criteria for undertaking infrastructure projects as their terms are affordable. The landlocked and developing countries should, therefore, utilize the services of these to the fullest.

Lastly, pricing of services is a thorny problem of political economy especially for the developing countries. There is however a growing recognition that in the interest of promoting sustainable development, the users of services should ordinarily be required to pay the social cost of providing these services.

There could be a transition period to move over to this pricing regime. The role of the government should change from provider of services to that of a facilitator. There is plenty of evidence to show that State owned enterprises are in need of institutional reforms. Hence the emphasis deregulation, privatization and franchising. Here the role of regulatory bodies becomes important. These institutions are need to be created with care and foresight. Use of information technology helps in solving the problems associated with differential pricing and cross subsidization.

There is need for developing a truly long-term market for bonds which, at present, does not exist in most developing countries. Until such a market develops, the scope for procuring private finance for investment in infrastructure will be severely constrained. The internal dynamics of bond markets, on the one hand, and their interplay with infrastructure industries, on the other, have become important in this context.

Conclusion

To sum up, Landlocked Developing Countries should focus on the following ten strategies:

(i) Modify the structure of production;
(ii) Tend to regional markets;
(iii) Exploit energy endowments for export to neighbours;
(iv) Financial inclusion to tap into rural savings;
(v) Develop bond markets;
(vi) Draw on the resources of regional development banks;
(vii) Users of services to pay the social cost of these services;
(viii) Change in the role of the government;
(ix) Establish regulatory institutions;
(x) Use information technology.