Statement
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Mr Chairman,

Excellencies, Distinguished Guests, and Ladies and Gentlemen

I wish to thank OHRLLS and ECA for organizing this regional meeting and for inviting UNCTAD to share its perspective on the implementation of the Almaty programme of Action and the lessons thereof for future actions. The challenges facing landlocked developing countries - the majority of which are located in the African continent – can be grouped into two categories - “Landlocked-specific” challenges and “new or emerging” challenges.

The “landlocked-specific” challenges are well known and they relate to their geographical location and their logistical dependence on coastal neighbors for trade and access to international markets. This has been a major factor in reducing the competitiveness of landlocked developing countries, in particular landlocked African countries, in international markets.

Why in particular, African countries? Because, transaction costs, especially transport and insurance costs, are generally higher in Africa and have been an impediment to trade flows within the region and to external markets. For a continent with the largest number of landlocked countries, Africa currently has fewer kilometers of roads than it did 30 years ago and the region has the highest costs for transporting goods in the world. In Central Africa, for example, transporting one ton of goods along the route from Douala in Cameroon to N'Djamena in Chad costs $0.11 per kilometer, which is more than twice the cost in Western Europe, where the cost is $0.05, and more than five times the cost in Pakistan ($0.02). This means that for an exporter from a Landlocked country like Chad, the cost of transporting goods to the nearest port could be as much as what exporters from coastal countries would pay to get their products to international markets.

It is understandable, therefore, that in recent years much attention has been paid to trade facilitation and transport-related challenges of landlocked countries as reflected, for example, by the exclusive focus of the Almaty programme of Action on transport, logistics, trade facilitation, relations with transit countries and the international support needed by Landlocked countries to mitigate the negative consequences of disadvantageous geographical location. Given the dire state of transport and trade facilitation services in African landlocked countries, it is likely that the focus on transport, trade facilitation and transit agreements will remain priority areas in future programme of action and the development agenda of this group of countries.

However, as UNCTAD has already highlighted on several occasions, the challenges facing landlocked developing countries go beyond the difficulties of delivering goods on-time and at reasonable-cost to international markets. They also encounter production, investment, knowledge, poverty and structural-related problems. Therefore, in looking forward, we believe that landlocked developing countries need a more *Comprehensive Development Agenda* and a new analytical and policy narrative - about how development can be promoted in landlocked developing countries that suffer from specific structural weaknesses and locational disadvantages.

In Africa - in particular, the problems of landlocked countries go much deeper than transport cost, cumbersome boarder procedures and lack of efficient trade facilitation. A typical feature of most African landlocked countries is lack of productive capacity, declining agricultural productivity due to low level of investment, a high incidence of poverty, excessive dependence on exports of primary products, low level of skills and technological base, a private sector dominated by informality, and limited progress in structural transformation. This is despite experiencing a promising period of sustained economic growth.

As you know, since the late 1990s, most economies in this region have grown considerably faster than the population - and - per capita income has consequently increased. In general terms, therefore, the region’s economic future looks much brighter now than it did some twenty or thirty years ago.

There are doubts, however, whether the current boom has brought fundamental changes in the structure of African economies - or - whether it will translate into sustainable and inclusive socio-economic development. In the context of our meeting today, two worrying characteristics of the recent economic boom in this region are worth noting.

First, growth so far has-not-had the desired effects on employment, income and human development. Growth has not been translated into sufficient job creation - and - most employment expansion is happening in the informal economy, usually at very low levels of productivity. Of course, job-less growth is not a feature unique to Africa or landlocked African countries - but given the demographic trends in the African region - the fact that economic growth has not created opportunities for productive employment is alarming and has implications for future development-path and peace-and-security in the region. Low labour absorption rates especially affect the young and new entrants to the labour market and have the impact of slowing down the process of poverty reduction – a situation that Governments can no-longer afford to ignore. According to World Bank, for example, "growth (in Africa) has been much less poverty reducing than in the rest of the world. Resource dependence and high inequality more broadly dampen the poverty-reducing effect of growth".

Second, there is little indication of structural change (or structural transformation) towards productivity-led and higher-value-added economies. Growth in Africa has mainly been driven by the extraction-and-export of natural resources. For example, the exports of the 16 landlocked countries in Africa consist of crude oil, primary diamonds, uranium, coffee, cotton, textiles and garments, livestock, tobacco, sugar and copper. Therefore, the economic growth and expansion we have observed in these countries is largely built on exports of primary products and increased public and private investment in construction, real estate development, non-tradable services and consumer goods, which are all associated with revenues obtained from primary sectors. Otherwise, very little structural transformation has taken place in Landlocked African countries - in fact, to that matter, in most Sub-Saharan African countries.

The share of agriculture in total GDP of landlocked African countries is about 28 % but in five of them it is more than 35%. Services has emerged as the largest contributor accounting for about 50% of the total GDP of African landlocked countries. Unfortunately, both agriculture and services are characterised by very low productivity. Thus, the only form of structural transformation that has taken place in the last decade has been a shift of labour-force from low-productivity agriculture to low-productivity non-tradable services. Furthermore, despite the growing importance of services, its impact on exports has been minimum. For Landlocked developing countries as a whole, services exports account for only 11.5% of total exports.

The question is, is this a problem? In other words, does it matter whether landlocked African countries achieve structural transformation as long as they continue to record high level of economic growth? We believe that it is a problem and it does matter very much. More importantly, we believe that a Programme of Action for landlocked developing countries should include structural transformation as a priority objective and provide measurable goals and a mechanism for monitoring progress in structural transformation.

Historically, successful economic growth has been associated with structural transformation, which is the creation of new areas of activities by shifting resources from traditional to modern sectors and from low-technology and low-productivity to high-technology and higher-productivity areas of production. In this context, structural change takes place not only across sectors – say from agriculture to manufacturing or services - but also by moving from low- to high-productivity activities and the production of more advanced and sophisticated products within sectors.

We know that to remain competitive – what you produce - how you produce it - and how you deliver it to the market - matters. The more competitive goods are often associated with higher productivity levels - and - countries that are able to get into such activities are those that have achieved growth with structural transformation. Similarly, to attain competitiveness, especially in international markets, what a landlocked country – with all its structural and geographical disadvantages – produce matters.

One would expect, for example, that - with growth - a landlocked developing country will begin to engage in the production and exporting of goods and services that are easier to transport and get to markets. These would involve shifting resources to the production and exporting of high-value and low-volume products – as - for example, some landlocked African countries like Ethiopia, Uganda and Zambia have done by encouraging investment in high-value horticultural goods that are airlifted to markets in Europe. They could also engage in e-services, including business-process outsourcing or other "trade in tasks" such as financial services for the region, which, for example, Rwanda is currently in the process of building the competency and expertise needed to deliver such services.

Therefore, all sectors present the opportunity for structural transformation. However, it is often argued that initiating an industrialization process, in particular the development of the manufacturing sector, presents greater opportunities for value-addition, creating productive capacities, productive employment, raising income, providing decent wages and living standards and reducing poverty. Manufacturing is also associated with greater product sophistication - although initially it may start with labour-intensive manufacturing, which is important for absorbing surplus labour.

It is also conducive for technological upgrading, generating linkages and stimulating productivity growth, which are vital for competitiveness and for climbing the development ladder. Indeed, it is impossible to imagine landlocked African countries – in particular those with large population - providing productive employment and decent income to the millions of young people that are expected to join the labour-market in this decade alone without expanding their manufacturing activities. Therefore, a *Comprehensive Development Agenda* for LLDCs that seeks to promote structural transformation must incorporate a strategy for industrial development.

However, it will be wrong to assume that it is only in manufacturing where value-addition, productivity growth and linkages could take place. It could and does also take place in agriculture and services – the two areas where landlocked countries also need to give priority attention in the coming decade.

In fact, in recognition of the importance of services for landlocked developing countries, the second UNCTAD *Global Services Forum* in Beijing, China in May 2013 organized a special lunch-time session – in the presence of USG Gran Chandra Acharya, High representative for LDCs, LLDCs and SIDS; the Secretary-General of UNCTAD, Dr Supachai Panitchpakdi and Ministers and Vice-ministers from several Landloacked Developing countries - to discuss the role of Trade-in-Services in enhancing the competitiveness of Landlocked developing countries. The meeting launched a Technical-Assistance initiative to support the efforts of landlocked developing countries to build their capacity for collecting and reporting statistics on trade-in-services. We are confident that this initiative – to be implemented by UNCTAD - will improve greatly the availability of data on trade-in-services, in particular fromm landlocked countries in this region, and this will enable policy-makers to make informed decisions on the basis of reliable and up-to-date statistics on trade in services.

Mr Chairman,

Finally, I wish to highlight at least three policy areas, which provide promising opportunities for landlocked African countries to promote structural transformation. Let me stress here, however, that this is by no means an exhaustive list – there are many other policy areas that also deserve special attention.

The first relates to opportunities arising from regional integration and intra-regional trade. Most national markets in landlocked African countries are small, due to a combination of low average income, small population and poor infrastructure. This is a major competitive disadvantage for manufacturing industries in particular. Regional integration can mitigate this disadvantage, particularly as neighboring countries have similar demand conditions, which are not as challenging for local producers as exporting, for example, to more advanced and competitive markets.

Interestingly, as shown in the latest UNCTAD report on Economic Development in Africa, entitled "Intra-African Trade: Unlocking Private Sector Dynamism", the share of manufacturing in intra-

African trade is higher than its share in Africa's trade with the rest of the world. In 2011, for example, 42% of intra-African trade was in manufactured goods. This implies that regional integration can serve as a launch pad for the development of manufacturing activities in Africa.

As you know, there is now a renewed commitment from the African Union and its member States to boost intra-African trade, which will provide an added impetus for landlocked African countries to use regional markets as spring-board for accelerating structural transformation through product diversification and exports to regional markets. However, two immediate actions are necessary by governments in this region.

First, existing barriers to intra-African trade must be removed. For example, intra-African trade is still faced with high tariffs. An African exporter to markets outside the continent faces an average protection rate of 2.5%, largely as the result of preferences African exporters enjoy under GSP, EBA and AGOA. However, if the same good is exported to an African market, the exporter faces an average applied protection rate of 8.7%. In fact, the average rate of protection varies across countries and products, in some cases reaching up to 50%. African countries also impose non-tariff barriers in the form of rice controls, product standards, imposition of quotas, administrative hurdles, and unnecessary document requirements and delays.

One hopes that with the ongoing tripartite negotiations and the implementation of the African Union Action Plan to boost intra-African trade, these impediments to trade will be removed.

Secondly, African countries need to rethink their approach to regional integration. In our view, they should move away from - a linear and process-based approach to regional integration - towards a development-based approach, which pays as much attention to the building of productive capacity and private sector development as to the elimination of trade barriers. The latter approach is what UNCTAD calls "developmental regionalism", which is a regional integration approach that goes beyond the domain of trade *per se* by giving equal emphasis to cooperation in other areas such as industrial, investment and technological policies. "Developmental regionalism" also puts more emphasis on strategic, realistic and targeted approach to policy-formulation and the implementation of regional infrastructural projects.

The second policy area that requires greater attention is the development of "regional value chains" as a stepping stone for greater integration into the "global value chains". Most landlocked African countries have a current comparative advantage in commodities, which - as the recent excellent joint report by ECA/AU on "Making the best of commodities" has shown, provides an important channel for the development of regional value chains through "forward" and "backward" linkages, especially the latter. Obviously, developing regional value chains will require increasing investment in hard and soft infrastructures, continuous upgrading of domestic firms that are involved in value chains, providing business support services and market information and investing in education and innovation. In each of these areas, national and regional industrial policies will play a crucial role.

Finally, landlocked countries, especially those with sizable domestic markets, should take advantage of the rising domestic demand by promoting the supply-capacity of domestic enterprises. There is sometimes the tendency Governments to focus on export markets and foreign enterprises - while ignoring the potential of domestic markets, increasing domestic consumers and the role of domestic enterprises. Two decades of sustained growth may-not-have created a large number of jobs but it – nevertheless - has created a sizeable “consuming class” with increasing appetite for consumption of manufactured goods, which have to be imported if they are produced locally.

Therefore, fostering entrepreneurship and building the production and supply-capacity of domestic private enterprises is crucial. Unfortunately, the enterprise structure in many African countries is constrained by high and rising levels of informality, relatively small-size of firms, weak inter-firm linkages, low levels of competitiveness and lack of innovation capability. Therefore, there is a need for actions to stem rising informality by facilitating the transition of firms from the informal to the formal economy. The issue of the lack of competitiveness of African enterprises can be addressed through granting subsidies to reduce the cost of factor inputs for exporting enterprises, providing better and cheaper access to finance, especially to SMEs, providing incentives to encourage innovation, and supporting the development of skills and technological capabilities.

Mr Chairman,

I hope you will find some of these ideas useful for the discussion in this African regional review meeting on the Almaty Programme of Action.

Thank you for your attention.