Integrating Landlocked Developing Countries into the Global Economy

The role of regional integration and cooperation
This summary accompanies the corresponding presentation at the Expert Group Meeting on Science, Technology and Innovation for Structural Economic Transformation of Landlocked Developing Countries (UN-OHRLLS) in Geneva on 10 – 11 April 2019.

The presentation draws on completed and ongoing projects led by the University of Sydney Business School in collaboration with the International Think Tank for Landlocked Developing Countries (ITT-LLDC) and the Economic Policy and Competitiveness Research Center.

Citation details
The spirit of regional economic integration

The end of World War II ushered in a period of not only rapid business internationalization but also progress in regional cooperation. The aim was to foster economic development, prosperity, and peace among countries across the world.

The main mechanism employed to support regional cooperation initiatives was the regional integration agreement. The agreement is designed to remove discrimination and barriers to international trade in goods and services. Scholars classify regional integration according to the depth and dimensions of integration (Balassa 1974):

- **Free Trade Areas** consist of countries that agree to eliminate tariffs and taxes in trade with each other;
- **Customs Unions** consist of countries that agree to eliminate tariffs and taxes in trade with each other, and on a common tariff border in trade with other countries that are not part of the union;
- **Common Markets** consist of countries that eliminate barriers to the free movement of the factors of production – goods, services, capital, and people – within the market;
- **Economic Unions** consist of countries that agree to align economic policy among member countries, and may include monetary integration through a single currency; and
- **Fully Integrated Regions** consist of countries that not only align economic policy but also other policies (e.g., social, development, defense and others), and are typically governed by supra-national institutions tasked with coordinating and enforcing policies across member states.

While the general impact of regional integration initiatives on international trade growth and development has been the focus of scholarly studies, there is much that remains to be understood with respect to the effects of these initiatives on landlocked developing countries (LLDCs) and small developing economies.

The implications of landlockedness

Landlocked countries have no ‘open access to the sea’ (Raballand 2003). This geographic characteristic results in a range of limitations and challenges. For example, landlocked countries cannot harness maritime resources to develop maritime industries (MacKellar, Wörgötter, & Wörz, 2000). This has the effect of limiting opportunities for economic diversification, which is a significant issue among landlocked developing countries (LLDCs) in particular.

Furthermore, the geographic limitations of landlocked countries also has the effect of increasing their vulnerability to the political, economic, and social stability of neighboring transit states (Foye, McArthur, Sachs, & Snow, 2004).

This has the overall effect of increasing the costs of international trade and decreasing the global competitiveness of firms and industries based in LLDCs. There continues to be significant opportunity to gain deeper insights into the unique context of LLDCs and develop economic and development policies tailored to these unique circumstances.
Regional integration initiatives and LLDCs

Studies led by the University of Sydney Business School have found strong empirical evidence that different types of regional integration agreements have led to different regional trade network structures.

Regions that are governed by agreements designed to foster deeper levels of integration (e.g. fully integrated regions such as the European Union) tend to have more robust, closely coupled, and tightly clustered trade network relationships compared to regions governed by more loosely-coupled agreements (e.g. the Association of Southeast Asian Nations or ASEAN).

The data shows, however, that the degree of integration of LLDCs into these regional trade networks tends to be generally low. While LLDCs do participate in regional trade, they tend to be positioned at the fringes of regional trade networks. Indeed, further studies show that regardless of their membership status in integrated regions, LLDCs tend to persistently remain at the outlying periphery of trade network structures. This points to a position of continuing vulnerability to trade network disruption.

Finally, preliminary investigations into the potential impact of the Belt and Road Initiative (BRI) – China’s proposed new model of regional cooperation and integration – shows that LLDC participation in regional trade agreements and access to increased physical infrastructure are insufficient to boost the global competitiveness of LLDCs.

Much remains to be done to incorporate initiatives and incentives in domestic and international policy to develop and increase the capacity, competitiveness, and market access of LLDC industries. This includes economic development grants and collaborative arrangements aimed at not just the transfer but also co-development and adaptation of knowledge and technology.

References

Dr Sandra Seno-Alday is a researcher at the Sydney Southeast Asia Centre (SSEAC) and a Lecturer of International Business at the University of Sydney Business School. These research projects are supported by the University of Sydney Business School, the International Think Tank for Landlocked Developing Countries (ITT LLDC), and the Economic Policy and Competitiveness Research Center.

For more information
Dr Sandra Seno-Alday | Business School
T +61 2 9351 4916 | E sandra.seno-alday@sydney.edu.au