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**LANDLOCKED COUNTRIES:  
OPPORTUNITIES, CHALLENGES, RECOMMENDATIONS**

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## INTRODUCTION

1. Landlocked countries, i.e. countries without direct coastal access to the sea and thus also to maritime trade, face very specific challenges. Compared with their coastal neighbouring countries, they start their trading “career” with numerous disadvantages from the outset. The situation is almost always aggravated when being landlocked coincides with other factors such as remoteness from major markets, tropical climates, considerable distance from the coast, poor infrastructure, or an inadequate policy, legal or institutional environment. In today’s competitive world, landlocked countries generally face a difficult situation.

2. Although the international community, including international organizations, banks, bilateral aid agencies, foundations, and NGOs, has put much effort into development, the income gap between rich and poor countries instead of decreasing actually widened. Apart from a few landlocked countries in Europe, most are not wealthy. Many of the poorest nations in the world, including a large number of African countries, are landlocked and their plight requires urgent attention.

3. Adam Smith in his “The Wealth of Nations”<sup>1</sup> noted that, apart from having a free-market economy, location and access to the sea, and, therefore, to trade routes, played a significant role in a country’s economic performance. Over time, rail, land and air transport, as well as telecommunications and information technology, have reduced the advantages of coastal over landlocked countries. However, shipping still plays a central role in global trade and geographic location also remains significant.

4. Although being landlocked is a challenge, it is not destiny. There are practical solutions to many of the problems faced by landlocked countries - ranging across comprehensive approaches to transit corridors, overall regional integration efforts, legal and regulatory reforms, institutional and administrative overhauls, specific international protection mechanisms and including an in-depth analysis of each landlocked country’s foreign trade composition and **its adequacy with regard to transport constraints**.

5. Geographical factors are only one part of the whole story. Today, wide-reaching multilateral and regional trade agreements (in economic regions, customs areas, free trade areas or developing trade regions) stipulate the steady lowering of tariffs. The international exchange of goods and services and the integration of production and distribution modes is more and more encouraged, and it, therefore, becomes all the more important to improve the physical movement of goods, i.e. the actual transport within, across and through countries’ sovereign territories. It is no longer so much access to world markets that is a problem but actually getting the goods there without major delays and cost increases due to legal, administrative, customs or technical barriers. This is the real challenge for all countries but even more so for landlocked countries, and particularly for developing or remote landlocked countries.

6. This overview paper will attempt to describe briefly the most common and most severe challenges that landlocked countries face. In the initial chapters it will examine the transit issues and the legal and institutional framework and outline the role of government. It will also give examples and illustrate by case studies how certain countries or organizations have managed to overcome certain constraints. Special attention has been given to

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<sup>1</sup> Smith, Adam. *An inquiry into the Nature and the causes of the Wealth of Nations*, Chicago, University Press, 1776 (1976).

eastern and central Europe and more particularly to Hungary, to the central Asian transition economies and to the most successful landlocked country, Switzerland. The paper, it is hoped, will go beyond being purely descriptive and provide a background for discussion. For this purpose, a number of recommendations are set out in the concluding chapter.

## **LANDLOCKED COUNTRIES – CHALLENGED BY GEOGRAPHY**

7. One of the most striking features of landlocked countries is their dual vulnerability; i.e. they are vulnerable on their own account and on account of being dependent on one or more transit countries. Not only are they deprived of access to the sea but their neighbouring countries often have little interest in making the flow of goods across their borders easy for them. In fact, their neighbouring countries may additionally have economic or military incentives to block their access to the sea or transit through their territory.

8. Furthermore, coordinating infrastructure in one country is already a huge task: doing it across borders is even more difficult. No wonder then that high transport costs caused by whatever infrastructure deficiencies, delays, fees or procedures are encountered in the transit country make the land leg of the shipping of goods to landlocked countries very costly and oblige the landlocked country to maintain high levels of inventory. For most landlocked countries, high transport costs remain the single most important obstacle to their equitable access to global markets and competition with other countries.

## **TRANSPORT COSTS – BACKGROUND**

9. How transport costs are determined by a country's location can be seen from the following examples. The shipping cost for a standard container from Baltimore (United States) to the Ivory Coast amounts to around US\$ 3,000. Sending the same container to the landlocked Central African Republic will cost up to US\$ 13,000<sup>2</sup>. Even more extreme is the example of a standard container which is sent from Rotterdam in the Netherlands to Dar es Salaam in Tanzania over an air distance of 7,300 km for US\$ 1,400 and then transported to Kigali in Rwanda over a distance of 1,280 km by road for twice as much<sup>3</sup>.

### **Infrastructure deficiencies**

10. Thus, the closer a landlocked country is to the sea the more it can profit from relatively cheap maritime transport costs. However, if a navigable inland waterway connects the landlocked country with the sea, isolation becomes already much less an issue. And if the necessary infrastructure, i.e. roads, railways, ports, is in place, geographical remoteness is further reduced. This, on the other hand, requires cooperation with the transit country. Thus, for example, in order to improve access of goods to and from Rwanda and Uganda, the Kenyan railroad system has to be improved. It also requires a coordinated approach to infrastructure development. An illustration of insufficiently coordinated infrastructure development was for a long time the Parana River basin in Paraguay. Only once an agreement was signed within Mercosur in the 1990s, which made the use of the inland waterway for barge

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2 Source: Hausmann, Ricardo, *Prisoners of Geography* in "Foreign Policy" January 2001

3 Source: Sachs Jeffrey D., Mellinger Andrew D., Gallup John L., *The Geography of Poverty and Wealth*, Center for International Development at Harvard University, in Scientific American Magazine, March 2001

transport easier, could some of the agricultural potential of landlocked Paraguay be exploited.

11. It is frequently not only the lack of adequate infrastructure that increases the costs for landlocked countries but also capacity constraints which can range from lack of containerisation and inadequate handling facilities to ancient railway rolling stock or ships and barges. This can result in missed opportunities for landlocked countries as they and their transit partners are often not flexible enough to respond to a greater demand in goods due to, for instance, a crop failure in another part of the world. These capacity problems are often underestimated and it is often more difficult to find investment funds for new locomotives than for new streets.

12. The sluggish economic growth of landlocked Africa which is far from markets and maritime trade and which is basically inaccessible by ocean-navigable vessels since its river system is full of impassable barriers is rooted in many of the issues mentioned earlier. Thus in the West African Economic and Monetary Union (UEMOA) some of the most critical railway lines date back to colonial times and as early as the 1920s or 1950s. Their rehabilitation is critical to the landlocked countries in order to get their goods shipped to the ports. The East African Co-operation, an inter-governmental organization between Kenya, Uganda and Tanzania claims that of the three countries combined road network, 84% requires immediate attention, i.e. only 16% receives occasional upgrading or other maintenance work<sup>4</sup>. It is, however, also very encouraging to see that on the African continent there are three landlocked countries (Botswana, Lesotho and Swaziland) which are among the best sustainable growth performers<sup>5</sup>.

### **The impact of borders**

13. The mere fact of having to cross borders adds substantial portions to the total expenses and increases the amount of red tape for traders. A recent study found that simply crossing the border between the United States and Canada is equivalent to adding between 4,000 to 16,000 kilometres worth of transportation costs<sup>6</sup>. If a border adds such significant costs in trade between highly developed countries, it is obvious that countries with weak commercial and customs infrastructure are faced with even more costly hurdles including even cross-border conflicts. It is, therefore, imperative to find solutions in this area: to simplify customs procedures, to harmonize documents; to introduce and implement electronic document processing and to create the enabling institutional environment for progress in this area. Even in highly integrated economic areas with firm political commitments, such as the European Union, harmonizing customs procedures and eventually abolishing internal borders took time. Candidates for the next EU enlargement round, such as Hungary, are currently implementing the necessary reforms which include legislative measures, strengthening of administrative and operational capacities, IT system development and training, coordination of law enforcement and customs agencies and establishing agreements on the international level to improve customs cooperation. This short list is just an example of what a country has to do even when that country, according to the 2001 Regular Report on Hungary's Progress Toward Accession, is "already quite advanced in this [custom union] area" in order to facilitate the movement of goods across national and international borders<sup>7</sup>.

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4 East African Co-operation, Strategy for the Development of East African Infrastructures

5 Economic Commission for Africa, *Economic Report on Africa 2000: Transforming Africa's Economies*, Addis Ababa, 2001

6 Source: Hausmann, Ricardo, *Prisoners of Geography* in Foreign Policy January 2001

7 Source: Commission of the European Communities, *2001 Regular Report on Hungary's Progress towards Accession*, Brussels 13 November 2001

### **Proximity to markets**

14. Also influencing the impact of landlockedness are such factors as closeness to markets and composition of exports. There is a clear correlation between having the main markets “just across the border”, as in the case of the landlocked countries of Europe, and being able to reduce the impact of being landlocked, i.e. the impact of facing high transport costs. There is a further correlation between being landlocked and choosing to export high-value and especially high value-added goods. In this case, transport costs account for a much smaller part of the end value, and the fact of being landlocked becomes insignificant. This has been the case for Switzerland for centuries. In addition to other factors such as favourable trade agreements and proximity to major markets, exporting high value-added goods was a very important reason why being landlocked did not matter for this country.

### **Influence on growth**

15. Many economic growth strategies for developing countries have included strong elements of labour-intensive export manufacturing or assembly. This, however, often requires a large proportion of intermediate imports, which are sensitive to transportation costs and reduce the profit margin for landlocked countries. Transport costs in this case act as an implicit tax on export earnings. The higher the transport costs, the greater the blow to a Government’s export-led strategy. It is, therefore, realistic to assume that geographically isolated countries such as Mongolia, Rwanda, Burundi or Bolivia will have severe difficulties replicating a model of rapid growth based on the export of labour-intensive manufactures. For certain production processes such as in electronics, apparel or other assembly-type operations which require high import content and have small per unit profit margins, high shipping costs can even eliminate remote landlocked countries from international competition. With the exception of those landlocked countries that are close to their markets and within easy reach due to highly interconnected transport networks, such as in Europe, e.g. in Hungary, developing comparative advantages in the high-tech industries appears difficult. However, information technology does offer huge opportunities to landlocked countries in the export of IT-based services such as software development, data transcription, or telemarketing. This needs certain technical prerequisites but nonetheless opens new doors for countries to overcome the disadvantage of distance.

16. The access of landlocked countries to markets, their ability to trade, i.e. move exports and imports efficiently and economically, is the key to maintaining consumption levels and fostering economic growth. Trade is also important in terms of the economic adjustment of developing landlocked countries which are often searching for means to counterbalance deterioration of terms of trade, civil unrest or natural disasters. Costly and unreliable transport depresses trade and in addition to the above-mentioned is often a result of a transit problem.

### **THE TRANSIT ISSUE**

17. In addition to these challenges, another barrier faced by landlocked countries is that they have to transit through another country, i.e. a sovereign entity of international law with its own economic, political, military and transport agenda. The trade competitiveness of landlocked countries is further reduced by “transit charges” over which they do not have direct control, such as port charges, road tolls, forwarding fees, customs duties or transport

quota restrictions on traffic from the landlocked country to the coastal neighbour that may be set out in bilateral or multilateral agreements with the transit country or countries.

### **Transit – short definition**

*Transit is a certain concession system aimed at facilitating trade within a given customs territory or between separate customs territories. It essentially allows the temporary suspension of customs duties or other taxes payable on goods originating from and/or destined for a third country while under transport across the territory of a defined customs area. This suspension of duties and taxes remains in place until the goods either exit the customs territory concerned, are transferred to an alternative customs regime or the duties and taxes are paid and the goods enter free circulation.*

*Examples:*

*Goods imported by a retailer in Vienna originating in Japan might for example enter the EU at Hamburg. In Hamburg they would be loaded onto a lorry for transport by road to Vienna. If placed under a transit regime, duties and taxes are not payable in Hamburg but in Vienna where the goods are placed on the market. En route between the two, the goods therefore remain duty-free and must not enter free circulation.*

*Another possibility would be goods from the US entering Rotterdam for onward transport to North Africa. In this case, the goods would be placed under a transit regime for transport by road to, for example, Marseilles, from where they would be shipped to North Africa. In this case too, provided the re-export of the goods is confirmed, no taxes or duties would be due in the EU.*

*In transit regimes, it is necessary for identifiable persons to be responsible for the suspended taxes, duty and excise during the transit. Such a figure exists in all regimes and frequently has to provide customs with a guarantee to back up the financial liability involved. In practice, a number of different systems exist to allow such transit operations to take place. They can vary depending on the territories involved in the transport.*

*(Excerpted from: European Parliament-Committee of Inquiry into the Community Transit System, Report on the Community Transit System, Strasbourg, 20 February 1997).*

### **The Legal Side: Introduction**

18. There are many documents of public and private international law which guarantee access rights to landlocked States. Such documents include the United Nations Convention on the Law of the Sea, of 1982, which entered into force in 1994 and which in its part X grants right of access of landlocked countries to and from the sea and the freedom of transit. There are also the 1965 United Nations Convention on the Transit Trade of Landlocked Countries; the General Agreement on Tariffs and Trade (in its Article V); the 1973 Kyoto International Convention on the Simplification and Harmonization of Customs Procedures; the Customs Convention on the International Transport of Goods Under Cover of TIR Carnets (TIR Convention) of 1975; the Convention on the Contract for the International Carriage of Goods by Road of 1956; or the International Convention on the Harmonization of Frontier Controls of Goods of 1982. Transit rights were also included in much older documents such in the 1921 League of Nations Convention and Statute on Freedom of Transit; the 1923 League of Nations Convention and Statute on the International Regime of Maritime Ports; the 1921 League of Nations Declaration Recognising the Right to a Flag of



States Having no Seacoast; or one of the oldest transit documents i.e. the Revised Convention on Navigation on the Rhine of 1868.

### **The TIR Convention**

*The TIR Convention, which is currently used by more than 32,000 transport companies in over 50 countries in Europe, central Asia and the Middle East, allows road transport operators to cross borders in international and transit traffic without involving major procedures and costs. The TIR system can be used at present for transport from Norway to the Islamic Republic of Iran (North-South direction) and from Kazakhstan to Portugal (East-West direction). Thousands of lorries in Europe carry the familiar blue and white TIR plate and indicate that they are using the TIR Customs transit procedure (more than 2.3 million TIR operations are carried out per year).*

*Traditionally when goods are in transit or are transported from one country to another, customs authorities apply national controls and procedures to cover duties and taxes at risk, i.e. to avoid the goods being sold on the black market without payment of Customs duties, sales taxes and/or value-added tax upon their importation or transit. These measures vary from country to country but usually involve at each border crossing the opening of the load compartment of the lorry, inspection of the cargo, imposition of security (guarantee, bond, etc.), the filling-in and processing of national Customs and transport documents, etc.*

*The application of the TIR Convention provides for an internationally recognized and accepted Customs transit regime with an internationally standardized and secured Customs document (TIR Carnet), an international guarantee cover in case of irregularities as well as harmonized Customs procedures limited, in most cases, to a standard visual external control of the sealed load compartment of the lorry and processing of the TIR Carnet. Thus, Customs authorities can reduce their manpower to a few administrative controls while transport operators and traders can make use of inexpensive, fast and secure border crossing procedures, often with special channels reserved for TIR operations only.*

*The TIR Customs transit system is supervised by an intergovernmental machinery, the TIR Executive Board (TIRExB) and its TIR secretariat which is located in the UNECE headquarters in Geneva (Transport Division). More than 32,000 authorized transport companies are registered at present with the TIRExB and its TIR secretariat, which also ensures the regular exchange of information and intelligence among participating customs authorities to avoid misuse of the TIR system by smugglers and organized crime.*

*(Source: UNECE Transport Division)*

19. Multilateral instruments have also been developed by regional organizations, including ASEAN—Association of Southeast Asian Nations (Framework Agreement of Goods in Transit of 1998), Mercosur-Common Market of the South (the Mercosur Treaty as well as e.g. the subsequent Agreement on International Road Transport within Mercosur, the Agreement on the Basic Unified Regulations for Transit; or the Agreement on Mercosur which introduces Multimodal Transport Facilitation). In West Africa, the TRIE (Transport Routier Inter-Etats) was ratified in 1982 but is so far not operational. ECOWAS-Economic Community of West African States-adopted the Convention relating to Inter-States Roads Transit of Goods, SADC-the Southern African Development Community, the Protocol on Transport, Communications and Meteorology (1996) and the Agreement on one-stop border posts. COMESA, the Common Market for Eastern and Southern Africa has a very ambitious integration agenda, which also includes the establishment of a regional customs transit system and already has a functioning COMESA carrier

license. The COMESA/SADC Customs Document still faces many obstacles in its implementation, as does the Regional Customs Bond Guarantee (RCBG) system in East and Southern Africa. In the same region an agreement on harmonized axle load limits has been adopted. And the European Union (with the exception of Austria) has moved to a fully liberalized road transport market.

### **Transit agreements**

20. Many transit agreements are negotiated on a bilateral basis (such as Nepal's agreements with Bangladesh or India) and are in most cases for a limited period of time. Many of them are ad hoc and even others are only some paragraphs in a larger treaty typically dealing with all kinds of trade issues. This can lead to an uncertainty, which is especially harmful to business interests. Customers may become wary over signing long-term export contracts and foreign companies might reconsider locating their facilities to a landlocked country if the transit issue remains unclear. Although in the end economic considerations will determine which transit route is most used, formally signed transit agreements create less transit problems for the countries that have them than for those without. All formal or informal transit agreements will however depend on the political goodwill of the participating countries.

21. Landlocked countries may depend on one or several transit countries or may have several options to access ports via road, inland waterways or railway. Transit corridors are often described in great detail, especially in bilateral transit agreements. This offers little if no flexibility for landlocked countries. Such detailed descriptions can deal with: points of entry, points of exit, land routes, service charges to the transit country, duty-free space, warehouses or free zones (open or covered space) in ports at the transshipping point, often even specifying the lease agreements and rent charges and customs representation in the free zone to control and inspect the trade flow and deal with administrative tasks required by the transit country. It is also common to include references to the transport of hazardous cargo and the rules to be observed in such cases, import/export procedures detailing required custom transit documents, required insurance policies or bank guarantees. Certain agreements might also set permit quotas, environmental restrictions and levies or road charges. Even in Europe, road transport services were traditionally subject to bilateral intergovernmental agreements on the basis of which the Governments annually agreed on road transit permit quotas for both freight and passenger road transport. Progressive liberalisation started in the 1980s with the introduction of Community quotas and has resulted in a nearly full liberalisation.

22. There might also be a number of special customs regimes, which involve the bonded transport of duty-free goods. Examples include inward/outward processing regimes where goods can be imported to be processed and re-exported) or warehousing regimes where goods can be stored in bonded warehouses pending the decision on their final destination.

23. This is by no means an exhaustive list of legal issues but it gives a sound notion of how complicated the situation can be for landlocked countries. In most cases the issue is further complicated by infrastructure deficiencies, maintenance problems, lengthy customs procedures, inefficiencies in the handling of goods at terminals and interactions between the various agencies involved in the transit operation. Inadequate port management can make delays in ports longer than the actual sea trip of the goods. It should, however, be noted that in many cases the transit countries are, just as the landlocked countries, developing economies themselves, with the same weaknesses in their infrastructure, institutional, administrative and regulatory frameworks.

## **Security**

24. Apart from the weaknesses of transport and infrastructure systems, security remains an important issue. Transit routes can be closed (such clauses are, by the way, rather common in transit agreements) due to security risks or political differences leaving the landlocked country with little other option but to develop alternative routes. Thus, due to border conflicts between landlocked Ethiopia and Eritrea, Ethiopia's access to the sea was interrupted and it had to fall back on an alternative port outlet for its foreign trade. In addition, this often leads to too much traffic on one road and an underutilization of another route for which the transit country has also paid and which could have been an efficient alternative.

## **The transit country's perspective**

25. It is thus not only the landlocked country that pays the bill. Transit countries have to do maintenance work too. They have to invest in new infrastructure, cope with environmental costs and are supposed to have efficient logistics and customs operations readily at hand. Therefore, transit is a costly venture for both the landlocked countries and the transit countries.

## **Transit – Focus on Corridors, Integration**

26. Transits are done the most easily and at the lowest costs for both landlocked and transit countries in an integrated environment. If goods can move freely and unhampered by administrative or customs delays, if investment decisions are taken in a common perspective, the well-being of landlocked and transit countries is increased and costs are lowered. Improvements in transport and transit facilities and an increased traffic volume will eventually benefit coastal as well as landlocked countries. Once this has been recognized, it may well encourage and foster collaboration between the two partners.

27. Many countries and regions are, today, in the process of building or planning transit or access corridors. Such initiatives have been taken more or less successfully by landlocked and transit countries on all continents, ranging from pan-European to Bi-Oceanic Corridors in South America to the revival of the ancient Silk Road in Central Asia. Countries are planning their "feeder" corridors, as for example Bolivia, which is planning four major corridors to avoid becoming a stop-over country once the Bi-Oceanic corridors have been built. Over the past years, more and more integrated projects have emerged in many countries and most of them are based on two distinct, but related approaches. They are led by, or are created within the framework of a regional integration project (as happened in Europe with the EU and its Trans-European Transport Corridor). Or, they are rooted in the establishment of a development corridor which, apart from facilitating transport, encourages social and economic development and the alleviation of rural poverty in the area it crosses.

28. Both approaches have in common that they pool human, technical and capital resources to achieve economies of scale and to develop regional or sub-regional cooperation. This plays a substantial role in guaranteeing sustainability.

*Development Corridors*

Establishing a corridor can be a great opportunity for both the landlocked and the transit country. It can be the expression of a commitment to improve trade within a region or sub-region and to improve access for the whole region's goods to world markets. A prosperous region or sub-region will guarantee higher growth potential to all its countries.

29. A rather good example of the development corridor strategy is the approach taken by the Spatial Development Initiatives (SDIs) programme launched during the 1990s by the Governments of Mozambique and South Africa, and, specifically, the case of the Maputo corridor. The Maputo corridor links the South African industrial heartland of Gauteng and the Mozambican port of Maputo. It is a development initiative along the tollroad and its feeder roads and there, it creates jobs and benefits communities on both sides of the border. The establishment of this development corridor is seen as a test case for regional integration and was met with scepticism, but also a lot of optimism. Having as a goal that all parties experience benefits from the corridor, it is a joint management of economic resources by African States. It confirms the trend towards regional integration with the real glue being cross-border physical integration. In addition, the Maputo corridor is also an example of a public-private partnership initiative (Build-Operate-Transfer, BOT) which was able to mobilise the large potential of a regional economy and private capital as opposed to attracting finance for narrow infrastructure projects on the national scale only.

*Regional approaches*

30. Transport corridors maximally enhance profitable interregional cooperation, another example being the Transport Corridor Europe Caucasus Asia, TRACECA. This EU initiated programme was launched in 1993 to develop a transport corridor on a west-east axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. A very interesting approach taken in the development of the corridor was to attempt in the first phase to establish a common legislative base in the transport and transit sector. The rationale for such an approach was the lack of a single legislative framework in the participating States' structures, which made a coordinated approach to the concept of international freight traffic difficult, if not impossible. It was agreed that laws should be systematically harmonized and amended to meet international principles and new laws adopted to regulate international freight traffic. Another interesting side of the TRACECA project is its spillover effect on other countries. It stimulated, in fact, the signing of bilateral treaties with e.g. Romania, a Danube country, and raised interest in the Republic of Korea, China, Italy, Poland, and Estonia to explore the construction of possible rail corridors.

*Marketing a Transit Corridor*

31. Each transit corridor requires an extensive marketing strategy to attract capital and transit traffic. Landlocked countries should realize that they could play a role in a sub-region and use this strategic location. In the case of Zambia, for example, it was only after independence that the country realized that it could take advantage of its strategic location in the sub-region and included such considerations in the planning and negotiation of corridors.

Landlocked countries can take an active role in proposing and working on transit corridor planning. On the other hand, a transit or coastal country can use its potential to attract investment and customers, and increase its own and the region's growth potential. A corridor systematically creates spillover effects which provide opportunities for a whole region.

#### *Funding – The Donor Approach*

32. Setting up a corridor as a commercial venture requires more than just a marketing strategy. It requires substantial funds on the one hand and an institutional or governmental commitment on the other. These two aspects have wide-ranging consequences. Finding funds is not an easy task. Traditionally, funds from the World Bank, the EBRD, bilateral or other multilateral donor agencies have been channelled into infrastructure development. For various reasons, not all funded projects proved to be successful or contained the right approach. This, together with other factors, resulted during recent years in increasingly fewer resources being readily allocated to infrastructure projects. Albeit with certain exceptions, developing landlocked countries had to renew their call for funds and had to bring their plight on to the agenda of international organizations. Thus, in July/August 2001, at their fifth meeting, the United Nations Governmental Experts from Landlocked and Transit Developing Countries and representatives of donor countries and financial and development institutions renewed their call for financial and technical assistance<sup>8</sup>.

#### *Funding – Public-Private Cooperation*

33. That funds can also be raised from the private sector is illustrated by the earlier described Maputo corridor project or by Namibia's Walvis Bay corridor. Independent Namibia in the 1990s was economically weak, had a limited market potential, was isolated from its neighbours and had no relevant eastern and northern links. However, the country had a large potential to serve as a gateway for its landlocked neighbours. In a public-private partnership and pursuant to the SADC protocol on Transport, Communication and Meteorology, which recommends both corridor development and corridor management institutions, it was decided to develop the Walvis Bay corridor, an extensive network of integrated transport and facilitation services. The pooling of private resources and expertise to run the project, i.e. the transport operators in cooperation with the public authorities and governmental institutions (as the transport regulators) has resulted in a partnership which benefits Namibia and the surrounding landlocked countries. The one issue that deserves particular attention in this case is the simultaneous development of infrastructure, institutional and regulatory reform and private-sector management and marketing. This was done to address and solve deficiencies and shortcomings such as the lack of intermodal operations, border and customs procedures and transport regulations.

34. To private operators, the key concerns are not only the total costs, but also transit time and reliability of service. Successful transit corridors are the result of joint efforts by public and private operators as well as all other government agencies. Transit can be described as a chain, which includes all the physical, organizational and administrative operations needed to move goods from their place of origin to their final destination. This chain covers the actual transport and also documentation, customs, insurance and all other handling procedures. Therefore, aspects which deserve particular attention are: closely knit cooperation and coordination between the

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<sup>8</sup> TD/B/48/10, 23 August 2001

public and private sectors, willingness to implement necessary reforms to reduce delays and administrative hurdles, construction of roads, railway links and port facilities, their efficient management, marketing and long-term maintenance and the repositioning of a transit and landlocked country to a more commercial and business-like approach to transport, trade and infrastructure problems. There is definitely something to be gained from opening up, from developing a port or a transit corridor.

#### *Advantages for a coastal country- the example of Togo*

*The Togolese economy is organized around its main port in Lomé. Most of Togo's foreign trade passes through this port, which also serves as a transit point for goods for the land-locked countries of the Sahel such as Burkina Faso, Mali and Niger. Exploitation of this position has encouraged the installation of communication networks linking the port to the landlocked countries and, at the same time, the opening up of Togo to the outside world. The structure of the import duties, by encouraging the transit and importation of certain goods for which there is a strong demand in the subregion, has also helped to ensure the preponderance of the services sector within the Togolese economy. The social and political crisis that Togo experienced at the beginning of the 1990s impaired the dynamism of this sector, which the Government is currently trying to restore. However, the State continues to have a strong presence in the sector through its wholly owned enterprises.*

*Togo's government report submitted for the WTO Trade Policy Review also stressed that one of Togo's general trade policy objectives included "...intensifying and improving transit trade" .. and noted that "further liberalization of maritime transport was envisaged; freight distribution has been eliminated in order to allow economic operators to choose their means of transport freely, and port fees have been considerably simplified; [it was envisaged to] strengthen, improve and facilitate transit trade through the Togo corridor with a view to reinforcing Togo's external competitiveness. To that end, the Government plans to create a dry port at Blitta to make it easier to transport goods towards the interior of the country and hinterland countries.*

*(Excerpted from WTO Trade Policy Reviews: First press release, "Secretariat and Government summaries: Togo", January 1999)*

35. In Europe too, ports, especially medium-sized ports, have experienced substantial growth and are coping with demand from coastal as well as landlocked countries and regions. This trend shows that size is not the most critical factor. Well-functioning and efficient port facilities provide economies of scale in all sectors including the service sector which huge ports have difficulties competing with.

#### **Transit- Analysis of alternatives**

36. In any transit agreement between landlocked and transit countries, corridors require careful analysis. They can entail not only general or informal costs but also require shorter or longer transit times. When a transit agreement is negotiated, the position of the landlocked and the transit country does not necessarily have to be opposed. On the one hand, transit traffic uses a transit country's infrastructure and it appears normal for the transit country to include incurred costs in road user charges, port tariffs, etc. On the other hand, the landlocked country is not entirely without bargaining power. Its traffic is a source of revenue for the transit country and much needed to make existing facilities profitable. Therefore, often, transit countries very much want to have good agreements to attract traffic. Most Governments feel that negotiating at least two access routes is imperative in order to avoid becoming "captive"; however, it should be noted that private operators will always use the cheapest and most

profitable route and ignore possible alternatives.

37. Therefore, what are the basic criteria which allow transit corridors to be compared, evaluated and chosen? Several factors play an important role. They deserve close attention and in certain cases even mention in formal transit agreements, especially when transit routes through different countries are compared. Such factors include trade facilitation means, i.e. procedures and documents required for import/export and customs (are these procedures harmonized? do they comply with trade agreements? is IT available and used? are international conventions such as TIR applicable?); infrastructure concerns (in what states are the roads, railways, waterways, storage facilities, terminals, ports; what capacities are available; is there adequate maintenance), operational and traffic constraints (loading time; waiting time; delays at ports or custom border crossings; traffic through the corridors; who operates the corridor; restrictions on transport operators), charges and costs (including direct and formal costs; insurance or possible informal charges, etc.) or institutional arrangements (do transport sector regulations and organisation exist? are the private and public sectors involved? do traffic sharing arrangements exist; have transport regulations on e.g. axle-load, dimensions or insurance been unified?).

38. It also helps to include a review mechanism, which allows both the transit and the landlocked country the monitoring of the stipulated points of the agreement.

### **Facilitating Transit – Other Measures**

39. Transport or development corridors are efficient but also comprehensive, long-term projects, and therefore, more time-consuming approaches to the transit issue. Harmonizing, simplifying and standardizing transit procedures and documentation are other necessary and accompanying measures that require equal attention if transit traffic is to be improved. Efficient information processing and transfer systems contribute to the facilitation of customs transit procedures. Such measures have to be adopted and if already in place have to be implemented. They make the life of both landlocked and transit country much easier and facilitate the task of public and private operators. Furthermore, antiquated and inefficient transit procedures make the whole transit regime vulnerable to fraud and misuse.

#### *Harmonized Documents and Procedures*

40. Trade facilitation procedures have been developed on the national, regional and international level. They range from common customs declaration documents, to the electronic transmission of data ahead of the arrival of cargo at the transshipping point to sophisticated computer programmes. Information technology, intermodal transport or other new trends can certainly contribute in an important way to the improvement of transit traffic and the reduction of transport costs for landlocked countries. Simplified systems, which improve the cooperation of customs and authorities in transit and landlocked countries or within one region, are key to reducing transport time and costs.

41. There are numerous examples of such simplified systems such as the EU's Single Administrative Document. Not surprisingly most technical assistance programmes include a reference to the introduction of such simplified procedures. Another example is the Baltic Common Transit Procedure, which so far covers road transport only and came into force in January 2001. It simplifies transit through the three Baltic States by

introducing a single customs declaration and guarantee. The Baltic countries see this Agreement as a step towards the Convention on Common Transit, which applies to the transit of goods from/through the EU, EFTA (European Free Trade Agreement) and the Visegrad countries. The Convention on Common Transit and especially the reforms introduced in July 2001 are an excellent example of legislative changes closely intertwined with operational reforms. The aim of this approach is to improve the legal environment for transit operations on the one hand, especially with regard to avoiding fraud, and, on the other, to link more closely the 22 customs administrations of the parties to the Convention. In Africa too, the need for a common customs document e.g. within COMESA (Common Market of Eastern and Southern Africa) has been recognized. First steps towards the recognition of simplified procedures have also been taken by the Subregional Transport Forum of the Greater Mekong Subregion.

42. The cooperation between the public and the private sector is fundamental for trade facilitation measures to succeed. The business community has hands-on experience and can therefore give concrete input. Their cooperation (which can be revenue-based as is the case e.g. in Singapore and Mauritius) is therefore not only helpful but necessary to progress further in this area.

### *Information Technology*

43. Another important element, which draws on the aforementioned, is the use of information technology (IT). Certainly a costly venture, however, an efficient and necessary investment for both transit and landlocked country. Paper-backed transit systems cause delays that are endemic. The EU relied for long time on such a procedure and has only recently introduced an IT-based documentary exchange in the transit area. It had be admitted that the paper-based regime which, in addition, had been designed for fewer member states could simply no longer cope with today's transit traffic. The sheer volume of papers created every single day exceeded the capacities of the customs services by far and resulted in serious delays in the treatment of transit operations, in administrative errors and had adverse financial impacts.

44. In this respect, it is worth noting that several national and international organizations are involved in assisting countries in their trade facilitation efforts and the automation of procedures. One example of such an initiative is the Trade and Transport Facilitation in Southeast Europe Project (TTFSE) of the World Bank, SECI (Southeast European Cooperative Initiative) and the US (and in collaboration with the EU). This project aims at reducing costs to trade and transport, at the same time reducing smuggling and corruption at border crossings in the region. The project provides: physical improvements to border crossings, technical assistance to strengthen the customs administrations, computerization of procedures at the border crossings, improved exchange of information between the border control agencies and the business community, through seminars, training and Internet websites. Membership in the TTFSE Program is based on being a recipient of funding for customs reform under a loan from the World Bank or a credit from the World Bank's IDA (International Development Agency) and signing a joint Memorandum of Understanding (MoU). By signing the MoU, the participants commit to joining the Regional Steering Committee of the TTFSE and to collaborating in the resolution of common problems constraining trade in the region. The MoU includes a direct reference to the improvement of transit and crossborder problems.

45. Other examples include the UNCTAD ASYCUDA and ACIS systems. Within the framework of COMESA and SADC (Southern African Development Community), new programmes aim at the consolidation and extension of computerized customs procedures and transport information systems and the setting up of joint border posts.



### ***ASYCUDA - Automated System for Customs Data***

*ASYCUDA is a computerized customs management system that covers most foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, transit and suspense procedures. ASYCUDA generates trade data that can be used for statistical economic analysis. The ASYCUDA software is developed in Geneva by UNCTAD. It operates on micro computers in a client server environment under UNIX and DOS operating systems and RDBMS Software. ASYCUDA takes into account the international codes and standards developed by ISO (International Organisation for Standardisation), WCO (World Customs Organization) and the United Nations. ASYCUDA can be configured to suit the national characteristics of individual Customs regimes, National Tariff, legislation, etc. ASYCUDA provides for Electronic Data Interchange (EDI) between traders and Customs using UN/EDIFACT (United Nations Electronic Data Interchange for Administration, Commerce and Transport) rules.*

### ***ACIS - Advance Cargo Information System***

*ACIS is a logistics information system designed to improve transport efficiency by tracking equipment and cargo on transport modes (rail, road, lake/river) and at interfaces (ports, Internal Clearance Depots (ICDs)) and providing information in advance of cargo arrival. ACIS provides both public and private transport operators and ancillaries with reliable, useful and real-time data on transport operations such as the whereabouts of goods and transport equipment, and thus improves day-to-day management and decision-making. ACIS also produces regular performance indicators which enable management to remedy deficiencies and to make full use of the existing infrastructure and equipment capacity.*

*Source: UNCTAD*

## **FUNDAMENTAL LEGAL ASPECTS**

46. A stable legal environment is the basis for any transaction, between businesses, private and public entities in landlocked and transit States. We have mentioned the more specific issues relating to transit agreements; however, in many cases it is not so much the lack of agreements that hamper the free flow of goods as the lack of implementation and enforcement. Thus, although many bilateral and multilateral agreements contain references and commitments to resolving transit issues, customs facilitation or regulatory problems, there are often simply not enough resources at hand to tackle the challenges in practice.

47. In many countries, however, the most basic legal and regulatory framework either does not exist or is inefficient. Thus, in many cases railway codes, civil aviation or inland water shipping acts, maritime or merchant shipping acts, road traffic acts, transport codes, customs legislation, freight forwarding laws, legislation on the transport of dangerous goods, require enactment, revisions and/or harmonization with internationally agreed standards. As mentioned earlier, the EU, within the framework of developing transport corridors within the central Asian and Caucasus region, has put a lot of emphasis on legal and regulatory reform. The previous system inherited from the former Soviet Union was a very unique transport system, that could not be adapted to the principles of a free market economy and to international transport operations. Therefore, draft laws that were strongly customized to the needs of the particular countries were proposed to the participating States and draft multilateral agreements were brought to their attention.

## Legal Reforms – Opening Markets

48. Infrastructure development and the development of a strong private sector that is competitive and will therefore add to the reduction of transport costs for landlocked countries, strongly depends on the business environment. Policies and legislation that are conducive to the development of the transport or forwarding sector or the involvement of the private sector in infrastructure development touches primary legislation included in civil codes or laws. Reforms in this area, which would range from liability to deregulatory issues, are far-reaching and require strong commitment from the relevant Government. Since in many landlocked and transit countries the poor development of infrastructure and services is a lingering threat to trade expansion, legal reform to create a good and open business platform is a good start and can be a catalyst for small and large scale investments.

49. Often rather radical changes are necessary and it takes courage for Governments to adopt and implement them. Breaking up monopolies, privatizing national railroads, letting private companies take over port operations, enacting and applying concession laws or opening national transport markets to foreign companies are examples of such steps. Countries, therefore, sometimes ask for safeguards. Hungary, for example, asked for such exceptions with regard to the required adoption of the *acquis communautaire* for accession to the EU. Letting freight operators into its national transport market, the Government fears, could potentially harm the small scale operators currently on the market. Another area that could profitably be addressed is a legal framework that allows for the establishment of public-private partnerships.

## Institutional Reforms

50. The lack of adequate institutions is another problem that requires more attention. Without appropriate institutions within the Government and the relevant ministries, the specific legal issues related to transport and transit risk being delayed, lack the necessary lobby and will fail to be implemented and enforced even if they are adopted. This is also the case for the implementation and enforcement of international conventions or agreements which are much better supervised if responsibilities are clear and their implementation and coding into national legislation through the relevant normative acts is driven by a designated agency. Furthermore, investments in infrastructure may not reduce transport costs if not reinforced by appropriate policy and institutional reforms. There is a two-way interaction between trade and institutions in that better institutions foster trade and more openness to trade results in the establishment of a better institutional framework.

51. In a recent study<sup>9</sup>, a very interesting link between having functioning institutions and overcoming the disadvantages of being landlocked was analyzed using the example of Botswana. Between 1965 and 1998, the country's average per capita income grew by 7.7 per cent annually despite its being landlocked and the 1999 Economic Report on Africa<sup>10</sup> by the Economic Commission for Africa ranked Botswana among the countries that satisfy the minimum requirements to sustain growth. Over the same period of time, order was maintained, the administration functioned well, large public investments were made in the education, health and infrastructure sector and institutional arrangements protected the property rights of investors. The reasons for the well functioning institutions in Botswana are manifold and root in tradition, colonial legacy, and a strong leadership with foresight.

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<sup>9</sup> Rodrik Dani, *Institutions, integration and Geography: in Search of the Deep Determinants of Economic Growth*, John F. Kennedy School of Government, Harvard University, August 2001

These conditions are not necessarily easy to reproduce. However, they show that these unorthodox elements, western policy advice and native approaches are a good mix for successful institutional build-up and sustainable development even in a landlocked country.

52. There is also a need to not only organize inter-governmental commissions but often also the whole transport/freight forwarding sectors. Federations and associations are helpful partners when it comes to implement agreements and rules as well as when cooperation between neighbouring countries has to be fostered. In many countries, transport and freight handling companies are fully or partly State-owned and require restructuring and more private-sector involvement. In other countries, informal or semi-informal sectors have developed in the transport profession and freight is often shipped without adequate insurance or in vehicles that do not respect safety requirements. In the West African Economic and Monetary Union Region, the flouting of cargo weight limits by trucks is considered one of the greatest contributory factors to the fast deterioration of the road network.

53. In all these areas, government intervention is certainly necessary to foster better control and regulation taking care, however, not to drive out the most effective service providers.

#### **Regional Approach – Harmonizing Laws**

54. The most desirable approach to the transit issue is certainly an integrated regional approach that addresses all issues involved, looks for possible solutions, and supports improvements in all countries through which the goods, also from landlocked countries, pass. Therefore, inter-country agreements are an important prerequisite as they cover access to and maintenance of transit corridors and potentially streamline and harmonize regulations. Cross-border cooperation between agencies is an efficient means to implement and enforce harmonized regulations such as among customs administrations in a region or sub-region. Such cooperation can even include transport operators so that transit procedures are more closely followed and monitored as is demonstrated by the example of the Transit Contact Group under the umbrella of the European Convention on Common Transit. However, one important factor should not be forgotten: the best transit agreement can only work if backed by political will and the capacity of Governments to actually control their agencies.

55. A further rather strong incentive for regional coordination is also rooted in a fundamental legal issue. Goods that cross borders for the purpose of being exported or just in transit are also moving from one legal system to another. In many border areas, distribution and transit centres have been built not because they have a particular economic relevance in the logistics process but simply because they mark the furthest point a truck can legally travel and where new legal conditions have to be complied with. Borders are the natural limit of the validity of legal documents such as bills of lading or insurance policies. Legal systems on the two sides of the border can so diverge that they create a “legal wall”. That can hinder the smooth transit of goods. Especially if legal tradition and historical or socio-economic legacies have different roots and have taken different directions, the nature of these legal systems can be incompatible. Regional approaches are, therefore, the only logical way to tackle these problems.

## **ROLE OF GOVERNMENTS**

56. Governments should play the role of a facilitator and interfere only when necessary. Transit agreements between Governments, however, are still necessary as they provide a much needed stability and specify more than one or two access routes to the sea, a condition that despite commercial considerations might become a necessary option at one point. Governments should create an enabling environment that allows private operators to choose the cheapest and economically most viable transit route. In their role as facilitators and trade and transit enablers, Governments should examine their own actions and help overcome bottlenecks linked to procedural, regulatory or customs questions. Governments are the driving forces when it comes to privatizing, liberalizing and creating a conducive and competitive environment. They are also responsible for adopting the necessary accompanying measures to buffer possible unexpected effects and prepare the ground for new developments.

57. Therefore, details in transit agreements, for example, can be left to private operators and in many instances, Governments could consider retreating from commercial operations. This will narrow their role in certain areas but, at the same time, strengthen their involvement in others, e.g. in finding resources for infrastructure projects, in formulating, implementing and enforcing transport regulations, international, regional, subregional or bilateral agreements, in negotiating simplifications and harmonizations, in reforming their agencies.

58. The following chapters show concrete examples of how countries in eastern and central Europe, central Asia and in western Europe are coping with being landlocked, how their governments have decided to tackle the issue over the years, including during their economic and political transition process, and which policies and concrete steps have been adopted to facilitate transit and their countries' access to the sea.

## **COUNTRY CASES**

59. What influence does the landlocked status have on the transition process in the countries in eastern and central Europe and central Asia? What other factors have to be taken into account when this assumption is being tested and what can be done when being landlocked is a problem for the transition process?

### **Introduction**

60. The geographical location of the 25 transition economies differs sharply; however 13 (Armenia, Azerbaijan, Belarus, Czech Republic, Hungary, Kazakhstan, Kyrgyzstan, the FYR of Macedonia, Moldova, Slovakia, Tajikistan, Turkmenistan and Uzbekistan) of the 25 transition economies are landlocked. It is also interesting to note that whereas 15 of the transition economies are over 1,000 km away from the major markets of western Europe, Hungary, the Czech Republic and Slovakia lie in the very heart of Europe and are, therefore, easily accessible for trade in goods and services.

61. The geographical location of the transition economies will of course also affect trade and investment and related decisions. The years since the beginning of the transition process have shown that certain countries have been more successful in both spreading economic and institutional reform and in attracting investment and trade flows. Two factors are striking: these more successful countries are either coastal economies or/and close to their major markets. Therefore, being landlocked seems to matter only if a country is at the same time far or disconnected from its major markets. Otherwise, it can be assumed that the closer a country, landlocked or coastal, is to western Europe, the earlier the reform process has started and the farthest it has progressed in the meantime.

62. One of the major growth strategies adopted by eastern Europe, for various reasons, is export-oriented growth with a large portion of assembly operations or outward processing trade. In these activities, transport costs play a substantial role for potential investors, and as intermediate products are being imported and finished products exported to western Europe, the choice of the production location will favour countries such as Poland, Hungary, Slovakia or the Czech Republic as these are physically closer to major markets and have a more open trading policy. Manufacturing will also most often be located close to where the final consumption of the product will take place as long as labour costs or transport costs are not too different.

63. Local sourcing too will become important in order to replace costly imports and avoid high transport costs. Thus, for instance, a Singapore-based electronic engineering giant uses up to 50% of local supplies in its manufacturing plant in Hungary.<sup>11</sup> What a probable accession of the central European countries to the European Union will bring goes beyond the scope of this paper. However, it can be assumed that once labour costs become adapted and the difference in labour costs becomes more important than gains from physical closeness (i.e. transport costs) production will move further east. Already the big multinationals in the electronics industry are looking for facilities in Romania or Ukraine.<sup>12</sup>

64. These examples show that being landlocked can be a burden also for a potential investor, but the problems linked to being landlocked can be overcome. In Hungary, Slovakia and the Czech Republic, being landlocked matters relatively little since these countries are contiguous to western Europe and are linked to western Europe and the sea through good roads, railways and navigable waterways over relatively short distances. Ever since the transition process started they have been included in the planning of the major pan-European traffic arteries. In addition, their nearing accession to the EU has forced these countries not only to invest large sums into the upgrading of their infrastructure and capacities but also to overhaul their transport policy, institutional frameworks and customs administrations. Closeness to EU definitely increases the reform process and provides an interesting incentive for speedy reform.

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11 Source: Wilson Drew, *In depth: Eye on Hungary*, in EBN, 30 January 2001

12 Source: idem

## LANDLOCKED IN THE HEART OF EUROPE: The case of Hungary

### Introduction

65. Hungary, a landlocked country, is located in the middle of rich markets and close to the country's primary and most important trading partners. Hungary is certainly one of the best examples for why being landlocked is neither a real obstacle to the transition process nor to trade expansion or economic well-being. The keys to overcoming its landlocked status are both given, i.e. geographical proximity to western Europe, its location astride main land routes between western Europe and the Balkans as well as Ukraine and the Mediterranean basin, the absence of topographical barriers, navigable waterways i.e. the Danube and the Tisza rivers, and negotiated i.e. trade agreements or bilateral and multilateral transit conventions.

66. However, being landlocked and, at the same time, a transit country also imposes constraints ranging across environmental concerns, heightened infrastructure requirements, and a different logistics system than that of coastal countries, i.e. with more warehouses, distribution hubs, etc. That these challenges can actually have a positive impact and give rise to new business and trade opportunities is one of the main conclusions of the following brief overview.

#### *Statistical overview*

*Data for 2000 indicate that Hungary's main trading partners are in Europe (with 90.2% of exports and 77.4% of imports) with the largest share in the EU (75.2% export share of Hungary's external trade and 58.5% import share) and the most important trading partner being Germany. Russia and the CIS are still relevant sources of imports especially as providers of energy. Trade with countries overseas was relatively small with both Africa (0.4% of total exports and imports), Australia and Oceania (0.1% of both exports and imports) and the Americas (6.0% of Hungary's exports and 5.4% of Hungary's imports). Active trade relations have been established with Asia, which holds an import share of 16.75 and an export share of 3.4%.<sup>13</sup>*

### Access to the sea – rail and road

67. Hungary can access the sea via inland waterways, rail and road, with roads being the most important, followed somewhat closely by rail and inland waterway traffic being by far the least important<sup>14</sup>. The Hungarian railways system has been improved during recent years. Today, there are regular container trains to the seaports in e.g. Hamburg, Bremerhaven, Rotterdam, Croatia, Turkey and Greece. Trains from Budapest take no more than 1.5 days to reach the two German ports that have become very important for Hungarian container trade to destinations overseas (including the United Kingdom and Ireland). The opening of a new railway line between Slovenia and Hungary in May 2001 made the establishment of regular container trains between Budapest and the Port of Koper in the Adriatic Sea possible. In a November 2001 study, Hungary's railway network ranked 5<sup>th</sup> among 16 European

<sup>13</sup> Sources: Ministry of Economic Affairs and Ministry of Foreign Affairs, Hungary, 2001

<sup>14</sup> Source: Commission of the European Communities, *Energy and Transport in Figures: Goods Transport, other European Countries, Performance by Mode in 1998*, Brussels, 2001

countries.<sup>15</sup> However, neither the rolling stock nor the basic infrastructure meets the latest technical and economic requirements. Maintenance of existing networks requires urgent attention and administrative reforms, especially the restructuring of the Hungarian Railways Company, MAV, is needed.

68. The development of new roads and continued efforts to maintain the already existing road system within Hungary will further strengthen its access to sea outlets. The legislative framework which regulates Hungary's transit and access to the sea are codified in bilateral inter-governmental agreements which often also regulate road freight quotas through a system of permits. A particular and inherent failure of such a system is, of course, the possible and actually often quite real shortage of permits and, therefore, a limitation in transit traffic through certain countries. Therefore, in July 2000, Hungary and the EU signed the bilateral Road Goods Transit Agreement which aims at facilitating transit across the territory of the contracting parties, particularly through the mutual exchange of road transit authorisations. These authorisations are in addition to those already exchanged within the framework of bilateral agreements between EU Member States and Hungary. The issue of transit permits opens a rather sensitive chapter in both Hungary's and the EU member States' transport policies as only a real reciprocal liberalization would actually bring substantive changes. Accession to the EU will introduce new rules that will require more competition and considerably change the road transport sector and admission thereto.

69. In addition, Hungary is also a party to several multilateral agreements including the TIR Convention. Customs transit procedures are regulated by the (EU) Convention on Common Transit of 1987 (amended in July 2001) to which Hungary is a party and which is broadly in line with the provisions of (EU) Community Transit. It has similar rules, the same documentation and procedures and similar guarantee arrangements. The Common Transit regime is not compulsory and the TIR system can be used as an alternative. Hungary also has bilateral agreements on transit and related subjects with other countries, including those that are important for the country's access to the sea. Customs cooperation is also included in the Free Trade Agreements concluded within the framework of CEFTA (Bulgaria, Czech Republic, Poland, Romania, Slovakia and Slovenia), as well as with Croatia and others.

## **Transit**

70. Hungary is also an important transit country; four of the ten Transeuropean Network corridors run through Hungary and this gives the country a significant role in European as well as sub-regional integration. In recent years, though, the excessive use made of roads for the transport of goods and the shortcomings in the rail system have seen a sharp increase in congestion on main arteries and border crossings. It is in the common interest of the transit and the transiting country that there be a good infrastructure and an equilibrium between traffic volume, traffic mode and environmental harm.

71. But Hungary is not only faced with the negative sides of transit. Hungary has, in fact, already started to exploit the benefits that are linked to transit and to the country's unique situation between East and West. These benefits are linked to the vast opportunities in service sector development, i.e. of providing services and solutions especially in the logistics sector. They range from providing adequate services to transport operators or freight forwarders to services such as increased capacities in storage, distribution, warehousing and container handling.

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<sup>15</sup> Source: Healey and Baker, *European Distribution Report 2001*

Providing flexible and high-level services will attract business, investment, expertise and create employment. The underlying assumption is a rather forward looking strategy in that it builds on the dynamic expansion of markets also eastwards and Hungary's location between eastern and western Europe. In fact, Hungary has the profile, experience and historical background which could eventually turn the country into a major trading and distribution hub despite its being landlocked.

### **The Danube – Hungary's natural connection to the Sea**

#### *Legal background*

72. Since 1992, Hungary has been connected to both the Black Sea and the North Sea. It was then that the 170 km connection between the Rhine and Danube rivers, the Rhine-Main-Danube Canal, was inaugurated and established a navigable waterway of 3,500 km across Europe. The Danube had always been a very important link for Hungary's access to world markets and trade. The Paris Peace Treaty of 1856, which ended the Crimean War, recognized the principle of free navigation on the Danube River. The Paris Convention of 1921 regulated navigation on the Danube from Ulm to the Danube's mouth and established an International Commission (with, today, 11 member states<sup>16</sup>) with authority over the Danube from Ulm to Breila. Since 1948, the Belgrade Convention on the Navigation of the Danube is in force. In its articles 1 and 25 the Belgrade Convention states that the "Danube is free and open for the nationals, merchant vessels and goods of all states, on a footing of equality in regard to port and navigation dues and conditions for merchant shipping except for traffic between ports of one and the same riparian State". The Convention also defines, in detail, maintenance commitments and the development of navigational channels as well as the defraying of relevant costs.

73. Apart from this multilateral Convention, Hungary has also signed two bilateral agreements, one with Germany (1989) and the other with the Netherlands (1991) just prior to the opening of the Rhine-Main-Danube canal in 1992. They cover the reciprocal use of inland waterways by vessels for the carriage of goods and passengers and for transit and the equal participation of these countries in their respective bilateral trade. Ships of these countries are guaranteed the same treatment while on the territory of the other contracting party.

74. In 1955, the Danube shipping companies signed the "Bratislava Agreements" on the international carriage of goods by inland waterways. These rules, elaborated by the transport companies themselves, are a private law document that deals with the general conditions for international transport of goods on the Danube and includes paragraphs on tariffication and emergency measures. Another agreement was adopted in 1984 on the carriage of high-cube containers. A particularity of the Bratislava Agreements and also the Agreement on Uniform International Tariffs is that they stipulate that bilateral trade should be reserved for national shipping companies of the two countries concerned. This led to the development of a strong tradition of cargo-sharing arrangements. Following the opening of the Rhine-Main-Danube Canal and the opening of East Europe, coordination of the regulations on the carriage of goods on Europe's inland waterways became necessary. In June 2001, the Budapest Convention (elaborated with the collaboration of the UNECE) on the contract for the carriage of goods by inland waterway (CNNI) was signed and will shortly come into force. This document will not only harmonize different



legal regulations but also make inland waterway transport more competitive.

### *Trade on the Danube- past and present developments*

*For Hungary, traffic on the Danube has gone through many phases. Thus, during the Comecon years, the Danube was an important trade link between Hungary and its eastern neighbours with the most important part of the waterway being its eastern end, i.e. towards the Black Sea. In 1984, the 64-km Danube-Black Sea canal opened and shortened the route to the sea by 370 km which meant a more direct and navigable, though by no means cheap, link. Access to the Black Sea provided also a trade route to the Far Eastern countries of Vietnam, China and India. The role of the Danube was reinforced by the nature of Hungary's trade with the then Soviet Union (e.g. ores and coal) and the fact that means of transport and tariffs were negotiated on ministerial levels in advance.*

*With the end of the Comecon in 1992, trade relations with EU countries intensified, trade moved westwards, and the important access points to the sea became Amsterdam, Rotterdam (with regular liner service to the UK and the shipping of even small amounts without delays), Antwerp and the German sea ports. By road and to some extent by rail towards Trieste (Italy), Koper (Slovenia) and Rijeka (Croatia). Trade towards the Black Sea ports decreased during the 1990s and was even more damaged by the consequences of the war in the former Yugoslavia.*

### *Traffic on the Danube- potential and reality*

75. Waterways, in general, hold a great potential that yet remain to be fully utilized. Today, most goods from overseas arrive in containers but, unfortunately, container traffic on the Danube has only reached a very small portion of such traffic on the Rhine. Although the Rhine-Main-Danube Canal provides Hungary with a new access to the sea via cheap and environmentally friendly waterways, a ship has still to pass 65 locks on its way. This is no problem for bulk transport but nevertheless prevents the establishment of regular liner traffic between Hungary and the North Sea ports. The Rhine-Main-Danube canal, as any other canal, sets limits with regard to the dimensions of a ship and allows only limited traffic, a problem operators on the Rhine do not have. Furthermore, carriers on the Rhine-Main-Danube waterway pass from one legal and regulatory regime to another and face a number of legal, technical and administrative problems. Only recently, the Danube Commission and the Rhine Commission have formally agreed to cooperate more closely to harmonize their respective regulations. Furthermore, there are also some more specific "Hungarian" problems that require attention. These include capacity problems, i.e. container vessels and ships not always up to the latest technical standards; a lack of ports along the Danube; inadequate port infrastructure; low water depth on the Danube above Budapest; and logistical problems in general.

### *The sea ports –Access to the sea*

76. In the light of increased overseas container traffic and a possible future eastward expansion of the EU, there are once again arguments for developing the Budapest-Constanza (Romania) waterway to the Black Sea. The new free port of Constanza is being developed and at one point it might be possible to link Port Said at the Suez Canal with Constanza and Budapest (with ocean and then river vessels). Another competitive link would be the Port Said-

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16 Today, the members of the Danube Commission include 11 countries (Bulgaria, Germany, Yugoslavia, Croatia, Moldova, Austria, Romania, Russian Federation, Slovakia, Ukraine and Hungary). Decisions of the Commission are only recommendations and not legally binding for the member states.

Gioia Tauro (Italy) -Koper (Slovenia)-Budapest route with ocean vessels, feeder ships and trains.

77. The Adriatic ports already, today, play an important role for Hungary and, due to their proximity, this importance could increase even more in the future. Governmental agreements and the CEFTA framework is today principally responsible for the good transit conditions and the relatively easy access to the Adriatic ports of Croatia and Slovenia. Hungarian export companies and the sheer volume of Hungarian exports have already transformed northern Croatian ports like Rijeka or the Slovenian port of Koper (the biggest Hungarian cargo handling outlet on the Adriatic coast) into huge export sites. In fact, Asia can be reached in 7 to 10 days less from Koper than from any of the large Atlantic ports. For the landlocked countries of Central Europe, including Hungary, the port of Koper is about 500 km closer than any of the North Sea ports. In Rijeka, Hungarians have taken a lead role in encouraging the revitalization of the port whose facilities require urgent modernization. The scheduled EU access of Slovenia at the same time as Hungary will further increase landlocked Hungary's access to major sea ports and remove any remaining customs or technical barriers.

#### Management and policy issues

78. As in many transition economies, the privatisation of operating, freight forwarding and handling firms, shipping companies and port authorities remains an issue to be tackled. In many of these companies the state is either the sole or the majority shareholder. These state-owned companies often have outdated fleets and an inflated administrative structure. The CEO of the Hungarian national shipping company MAHART Rt., which is still 100% state-owned and whose privatization has been postponed for many years, estimated in May 2001 that, in order to become profitable, efficient and internationally competitive, the number of river ships would have to be cut from the current 35 to about 5; and the administrative staff would need reduction from over 200 to not more than 3 or 4<sup>17</sup>. The maritime merchant fleet, MAHART operated under Hungarian flag ceased its operations in October 2000.

#### **In summary**

79. Hungary's accession to the EU and the related necessary adoption of the *acquis communautaire* has a decisive influence on the country's future position among Europe's trading nations. It influences such areas as transport policy and customs organization. Thus, the transport sector has in fact already been re-organized, infrastructure construction work has been initiated and implementing legislation has been adopted in numerous cases. Considerable progress has also been made in the adoption of simplified and IT-supported customs procedures and the improvement of administrative and operational capacities, which substantially simplify the import, export and transit of goods.

80. EU accession means for Hungary that it will be the Union's eastern border. As such it will also play a substantial role as a major transit country and has thus great potential for developing a modern services sector which will strengthen Hungary's role as a link between East and West. The integration of an Adriatic port country (Slovenia) at the same time as Hungary will further facilitate Hungary's access to the sea. Therefore, this dynamic context with trading opportunities at the eastern and the western borders will once again change the country's response to being landlocked.

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17 Source: Balazs Edith, *Mahart: Taking on Water*, in Business Hungary, May 2001

81. With regard to Hungary's waterways, the priority remains the expansion of river traffic on the Danube and the construction of the necessary and adequate infrastructure and service network to support transport on this waterway. Increasing the navigability of the Tisza river is another strategic development worth mentioning. It is also interesting to note that the Danube is one of the backbones of planned new transport corridors. Although canals are, in general, rarely economically viable and limited traffic remains a problem, they promise some advantages to landlocked Hungary. The planned Danube-Adriatic Sea route, for example, which would be an extension of the Monfalcone (Italy) port to Ljubljana (Slovenia) canal towards Győr (Hungary) or Bratislava (Slovakia), is just one such example.

82. In summary, being landlocked matters only little to Hungary. In fact, Hungary attempts to take advantage of this given situation by emphasizing service sector development and exploiting the advantages of its role as a transit country. Only recently Hungary managed to lure away high-tech investment from Ireland, so far considered as one of the best manufacturing sites in Europe. This is all the more interesting, as one of the reasons for these moves was also Ireland's geographical situation that requires over water shipments to get to the EU. Hungary's landlocked location, together with its borders with seven countries and connections to the emerging economies eastwards was exactly what attracted investors. Another interesting example is that of a foreign electronics company that has started to produce game consoles in Hungary that are actually destined for sale in Japan.

## **CENTRAL ASIA'S LANDLOCKED COUNTRIES**

### **Introduction and background**

83. In contrast to the central European countries, central Asia is both landlocked and far from markets, and this has been highly consequential for its economic performance especially since the beginning of the economic transition. The region also has a very distinct historical legacy. Until the beginning of the 20<sup>th</sup> century the rate of urbanisation was very low and, therefore, the region's involvement in international trade as well. During the 20<sup>th</sup> century its geopolitical situation reduced the exchange of goods and services within the region, in order to follow a strict Soviet-centred Comecon trading pattern. On the other hand, the landlocked countries of central Asia are ancient traders with a booming trade since 3000 B.C. Located along the ancient Silk Route they were actively involved in both eastward and westward oriented trade.

84. Today, the region's transit routes are fragile; security remains a substantial problem and finding alternate land-sea trade routes is a difficult venture. In a statement to the United Nations General Assembly in October 2000, the Permanent Representative of Kazakhstan pointed to the fact that prohibitive transport costs in Central Asia can amount to up to 60 per cent of the value of manufactured imports<sup>18</sup>.

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<sup>18</sup> Source: STATEMENT by H.E. Mrs. Madilna B. Jarbussynova Ambassador, Permanent Representative of the Republic of Kazakhstan to the United Nations, New York, 26 October 2000

## **Current developments**

85. During the past 10 years, Central Asia has nevertheless been able to develop and negotiate a number of transit routes including the ever so important pipelines for energy exports through the Russian Federation. In addition, China and the Islamic Republic of Iran can be transited by rail and road; the Trans-Caspian ferry routes offer transit by rail and road, and, towards the South, through China to Pakistan and India access is granted by road. These main transport corridors have already significantly opened landlocked central Asia to trade, although much remains to be done, especially in terms of infrastructure maintenance, up-grading and rehabilitation, a priority objective of numerous transport assistance projects supported by international agencies (e.g. the UNECE and ESCAP Special Programme for Economies of Central Asia (SPECA); the European Bank of Reconstruction and Development (EBRD); the Asian Development Bank; United Nations Development Programme (UNDP), the World Bank; the Islamic Development Bank and the TRACECA Project of the EU). Also, efforts to revive the old Silk Road have been high on the infrastructure development agenda of many of the aforementioned international institutions. In June 2001, the World Bank joined among others the EBRD, the EU and the Islamic Development Bank by approving a substantial credit to further the plan to link landlocked Central Asia with China and, eventually, other markets. An interesting component of the World Bank investment is that it includes an institutional strengthening component within the framework of the project's highway building plan in Azerbaijan. It is assumed that a restructured and modernized Azeri road agency which owns and maintains the roads and is responsible for the implementation of the highway project is key to the success and the sustainability of the project.

### **United Nations Special Programme for the Economies of Central Asia - SPECA**

Since 1997 the United Nations Economic Commission for Europe (UNECE) and the Economic and Social Commission for Asia and the Pacific (ESCAP) together with Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan and Uzbekistan have been operating a programme which focusses specifically on the economic issues of concern to the central Asian republics. One priority area for action is the development of transport infrastructure and the simplification of border-crossing operations in cooperation with other institutions. As a result, it is expected that SPECA countries will improve their transit and trade potential in central Asia and improve links in Europe and Asia.

86. The countries of central Asia have made substantial efforts in adopting major international transport and transit conventions including the TIR Convention. It is, however, not enough to sign and ratify Conventions, implementing them is even more important. Thus, for the TIR regime to work, certain institutional requirements have to be met, complying with the construction requirements for vehicles or maintaining tachographs is difficult, and it will take time, capacity building and money to make these conventions operational. Another area that requires urgent attention is a region-wide effort to harmonize existing regulations and rules. As described earlier, the TRACECA project includes such a component. It is obvious that harmonized rules with regard to axle-load, transit charges, customs regulations, insurance and the introduction of IT would considerably lower transport and transit cost and time.

87. With regard to regional/subregional cooperation or integration, central Asia is not yet as far evolved as could be theoretically possible. In reality, numerous obstacles including security issues, political conflicts, informal charges at border crossings, transit taxes or visa requirements have hampered the development of good cross-border relations and, thus, also the flow and transit of goods within the region and toward other markets. The region's Governments have, in fact, signed many agreements (bilateral and multilateral) with numerous lending and donor agencies or international organizations. There are more than five agreements within the central Asian and Caucasus region all aimed at facilitating trade and transit in addition to the many international conventions. Unfortunately, more than once, these agreements stipulate different or contradicting sets of rules, procedures, mandates and institutional arrangements for the various projects or transit corridors.

### **In summary**

88. Geography, i.e. being landlocked, is far from explaining everything about the current economic situation of Central Asia. Other factors and particularly the political climate and stability have a major if not more important impact. The example of this region also clearly indicates the need for a more concerted approach and more coordination between governments, donor agencies and international organizations. Agreements will only serve the purpose of facilitating transit and trade if they are harmonized, implemented and enforced. Being landlocked is certainly an additional burden on the central Asian republics, but many of today's problems could be alleviated if priority were to be given to moving forward sluggish reforms and improving regional cooperation to tackle the most urgent transit problems, reducing transport costs and accelerating access to world markets.

## **BEING LANDLOCKED IN WESTERN EUROPE –The case of Switzerland**

### **Introduction**

89. Switzerland is definitely the most successful landlocked country in the world and, as the success of the Swiss economy and especially of the Swiss export industry indicates, a country that is neither suffering from nor affected by its landlocked status. The ingredients for such a success story are particularly "Swiss" and not readily transposed into other areas or other countries of the world. However, they are worth a closer look as they can certainly provide ideas of use to other landlocked countries. A striking result of the research undertaken within the framework of this study is that neither relevant literature nor Swiss authorities seem to consider their country a victim of landlockedness. Indeed, the geographical location of Switzerland is rather seen as a positive challenge and an incentive for creative solutions both in transport, economic and trade policies. It should also be noted that Switzerland, an alpine state, is not only landlocked but also one of the most important transit countries in Europe.

### **Switzerland – The economic and trade answer to being landlocked**

90. Switzerland is one of the world's leading export countries with very high export quotas, reaching up to 95% in the watch-making industry, 85% in chemicals and pharmaceuticals and 76% in engineering and vehicle manufacturing.<sup>19</sup> As early as in the 19<sup>th</sup> century, watch and clock making as well as the silk-ribbon weaving

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<sup>19</sup> Source: Osec, *Business Network Switzerland: Swiss Foreign Trade 2001/2002*

industries were geared to export trade. Whereas the textile industry lost its weight towards the end of the 19<sup>th</sup> century, the watch-making sector continued to expand and the very profitable chemical and machine-building industries took an essential place in Swiss industrial production. Within a short period of time Switzerland managed to develop export industries of major international importance despite being landlocked and despite a lack of mineral reserves, coal or other raw materials required in the chemical industry. Favoured by frenetic railway building and the opening of the Gotthard tunnel in 1882 as well as by free navigation on the Rhine, Switzerland very early became both connected to the sea and a major North-South alpine transit country. The shift toward a service-based economy started during the two world wars and, today, Switzerland is among the biggest exporters of commercial services with, in 2000, a 32.9% share in the total exports of goods and services<sup>20</sup>.

91. Today, Switzerland is not only a leading supplier of watches, chocolate and cheese but also of machinery, elevators, escalators, high tech, pharmaceutical and biotech products and packaging equipment (with, today, many of the components produced abroad). These exported goods, and also services, have in common that they are high value and high value-added. Therefore, transport costs matter much less for both required imports and subsequent exports. Switzerland has thus managed to develop economic sectors that perform very well despite landlockedness.

### **Trading in the middle of Europe**

92. Industrial and trade developments, however, do not explain all. Switzerland has a very stable political climate and, although being landlocked, Switzerland is in the middle of Europe and in the middle of its most important trading partners, the member states of the EU with an export share in 2000 of 62% of all foreign sales. Other important trading partners are the Americas and Asia, each with a share of 15%, the rest of Europe, i.e. excluding the EU countries 5%, Africa 2% and Oceania 1%.<sup>21</sup> Imports are mainly obtained from the EU countries (74.47% of all imports from industrialized countries) and to a lesser extent (10.82%) from the major overseas industrialized countries (US, Canada, Japan, Australia and New Zealand). Other important suppliers are in Asia<sup>22</sup>. Thus, most of the Swiss trade takes place within the region but Switzerland is also trading with highly diversified trading partners all over the world.

93. Major trading customers and suppliers are today Germany, the US, Japan and China. Switzerland is a member of the European Free Trade Association (EFTA) and enjoys preferential trade arrangements with the EU, including the elimination of important customs duties and the integration into common customs procedures, which also aim at facilitating transit procedures. Since 1987, Switzerland is a party to the (EU) Convention on Common Transit, which was amended in 2001 to include the increased use of the New Computerized Transit System (NCTS) already launched in Switzerland on a trial basis in 2000. The important volume of trade between Switzerland and the EU made the conclusion of preferential trade, customs and transit agreements possible. The bilateral treaties between Switzerland and the EU are a further indication of this.

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20 Idem

21 Idem

22 Idem

94. Switzerland is linked to its major markets by an excellent infrastructure and to the sea via railways, roads and an excellent navigable waterway. In 2000, 60.8% of the weight of Swiss exports and imports was transported by road 29.3 by rail and 5.0 on waterways. Switzerland is also a strong supporter of combined traffic solutions and encourages both water-rail-road traffic as well as road-rail traffic (Kombirail). These means are used for both transport from Switzerland to abroad, especially to seaports, and transit through Switzerland. Thus, Switzerland is far from being economically and geographically isolated and no wonder that between 1965 and 1990, the c.i.f./fob band which measures shipping costs was only 1.8 and among the lowest in the world<sup>23</sup>.

95. Switzerland still has a maritime merchant fleet totalling 20 vessels with a combined dead weight of around 800,000 tonnes, ranking Switzerland in the 60<sup>th</sup> place among the world's commercial fleet countries. The right of landlocked countries to a commercial maritime fleet is codified in the 1921 League of Nations Declaration recognising the Right to a Flag of States Having no Sea-coast and was later taken up by the 1958 UN Convention on the High Seas and the subsequent 1982 UN Convention on the Law of the Sea. Considered a necessity during the two World Wars, the merchant fleet was maintained to give Swiss transport companies possibilities for expansion. The merchant fleet, initially government property, has been sold to private investors and shipping companies and continues to operate successfully.

#### *The Rhine – Switzerland's Natural Access to the Sea*

*Switzerland is located on Europe's most important inland waterway, the Rhine. In 1815, the final act of the Congress of Vienna established the principle of the freedom of navigation on international waterways and gave birth to the Central Commission for Navigation on the Rhine. In 1868, the Convention of Mannheim updated the main rules that had governed the Rhine navigation since 1831 and included the latest technical, economic and political developments. In 1963, the Mannheim Convention was again amended to become the Revised Convention for Rhine Navigation. The main principles contained in the Mannheim Convention and never abrogated by subsequent amendments are freedom of navigation, equal treatment of all fleets, exemption from navigation duties, freedom of transit for all goods, obligation of the member states to maintain the waterways, uniform safety regulations for vessels and navigation, uniform jurisdiction in navigation affairs and navigation courts for the Rhine and the establishment of the Central Commission for Navigation on the Rhine. The Central Commission (member states: Switzerland, Germany, France, Belgium and the Netherlands) is among the oldest still existing governmental organisations and continues to ensure the freedom of navigation on the Rhine and to maintain a uniform legal regime which governs the full length of the river.*

*Compared to the Danube, the Rhine has a much higher economic importance and a much larger transport volume. Furthermore, the technical standards and the transport capacities on the Rhine are more advanced, especially in the area of container transport. The states bordering the Rhine use this potential much better than those of the Danube do. A big advantage is, of course, the fact that the Rhine is navigable by ocean-going vessels until well into Germany and by river barges to Basel, Switzerland. Container transport combined with road and rail traffic have led to a boom in the construction of some 30 container terminals as well as combined traffic terminals along the Rhine. In Switzerland, the port of Basel is one of the most important Rhine ports with container terminals handling waterway-railway and waterway-road traffic links as well as other services including storage and processing. In 1998, Switzerland was also granted navigation rights on other waterways within the framework of the Central Commission.*

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23 Source: IMF, IFS Yearbook 1995

### **Switzerland – A landlocked transit country**

96. Geography has not only made Switzerland a landlocked country but also a major alpine transit country. Indeed, there are not many possibilities for freight forwarders to cross the Alps in the North/South and vice-versa direction. Switzerland together with France, Italy and Austria has, therefore, a very particular role as a transit country and its negotiating powers with regard to transit permits and truck weight is rather broad. The Gotthard railway tunnel, which opened in the late 19th century, marked Switzerland's beginning as a transit country. Throughout the last century infrastructure was improved and transit agreements concluded such as the 1992 transit agreement with the then European Economic Communities in which Switzerland committed to the construction of high-capacity axes for rail-goods traffic and the EEC accepted the 28 ton limit for transiting trucks.

97. In 1998, within the framework of the EU-Switzerland bilateral treaties, a new transit agreement was signed. For the EU, Switzerland has a strategic position with regard to alpine traffic and the alleviation of traffic in the EU member states of Austria and Italy. This new agreement foresees the gradual introduction of access to Switzerland for trucks of up to 40 tonnes; the establishment of an annual transit permit quota system and flat-rate charges for empty or lightly loaded trucks of 28 tonnes. At the same time, Switzerland undertook major investments to improve its infrastructure, and, especially, the railway and tunnel network to unburden land transport in favour of trains and the creation of more combined transport corridors. This new bilateral agreement has not only political, but also economic implications for Switzerland's freight forwarders and exporters. With information technology, e-commerce, supply-chain management and new logistics techniques, a secure and stable legal framework was needed that enables all players involved to optimally use the available capacities. The fiscal consequences, on the other hand, will ensure the financing for infrastructure development and maintenance. All this is expected to decrease the costs associated with the logistics process and increase the competitiveness of Swiss companies. The transit agreement is also a very good example of how governments are trying to match both environmental, traffic and economic concerns, an equilibrium that is not easily found.

### **In Summary**

98. The example of Switzerland leads to an important conclusion: being landlocked does not have to be considered a problem and does not necessarily have to be treated as such. Switzerland found solutions to transport bottlenecks by giving more attention to transport policy and transport alternatives. The country decreased the impact of possible high transport costs, which are often associated with being landlocked, by an industrial and trade policy that favours the export of high value and high value-added products as well as services. Switzerland sought alternatives and answers within the regional context, but without actually joining the pre-dominant regional grouping. And very importantly, transport routes were traced and transport agreements were concluded according to economic and not political considerations.



## WHAT REMAINS TO BE DONE – CONCLUSIONS AND RECOMMENDATIONS

99. This brief overview clearly shows that geography is not destiny. Geography or, in this case more precisely being landlocked, certainly influences economic, infrastructure and political decisions. However, it cannot be blamed for all economic, social and political development problems a country faces and it should not serve as an excuse for inertia and slow-moving reforms. There are examples of how even remote countries (e.g. Australia or New Zealand) have become successful traders and there are examples of landlocked countries that have found their very own way out of their geographical “handicap”.

100. The problems of landlocked countries can be overcome, in the long run, with the right mix of many, often rather country- or region-specific, ingredients. Adequate “compensation” policies and investments are one essential means, lowering the psychological barriers that often seem to block the definition and use of some measures. For landlocked countries it is, therefore, all the more important to get basic macroeconomic and trade policies right, to cut red tape in freight operations and to speed up customs clearance procedures. Governments have to accept that they need to eventually become, and act as, real “trade-enablers” in order to facilitate the flow of goods. It is also very important to raise awareness and increase information dissemination both among landlocked and transit countries and among the private operators.

101. As landlocked countries are often also transit countries for their neighbours, the issue of carefully balancing environmental concerns, traffic and transport requirements is a high priority for them as well. On the other hand, being a transit country also opens new potential opportunities for landlocked countries. The development of a modern up-to-date service infrastructure for transiting cars, trucks, trains, airplanes or ships adds value to the transit process, creates jobs and creates a whole new logistics sector with distribution centres, warehouses, technical and even processing facilities.

102. This said, being landlocked in the heart of Europe certainly does not have the same consequences as being a landlocked country in the heart of Africa, Central Asia or South America. The landlocked status is very closely intertwined and linked with a complex set of challenges and problems and, therefore, cannot be tackled as an isolated problem. Governments in landlocked and coastal countries, as well as the international community and donor agencies, should attach increased importance to this multifaceted mix of challenges and attempt to deal with these challenges in their many aspects. There are certainly priority actions to be taken and there are very particular region-wide measures to consider. But there is also ample space for more generic solutions that apply to all landlocked countries alike. Work would be particularly useful with regard to trade and customs facilitation measures, cross-border infrastructure development or coordination and implementation of regional or sub-regional approaches. The international community should also be open to monitoring, especially with regard to the implementation of agreements that guarantee better transit conditions and access to the sea.

103. In the following, some of the main points that we identified in this paper are summarized. This brief list of recommendations is by no means exhaustive, but it is intended to provide incentives for further discussion and, hopefully, for action.

## RECOMMENDATIONS

### Trade and economic policies

104. Assuming that there is an interaction, or even dependence, between being landlocked and appropriate economic policy or reform, it is important for a landlocked country to re-examine its composition and direction of foreign trade, its main suppliers and customers. Developing comparative advantages or attracting capital to develop export-driven sectors is only possible under certain circumstances which might not necessarily exist in a landlocked country that is far from major markets and has no real access via viable transit routes to the sea. Copying an export-driven growth policy that was successful in one part of the world does not necessarily mean that it will work for a remote landlocked country in another part of the world. Reliability, speed and fast response are the required assets for export-oriented growth. When investors do not find these basic requirements, investment will move logically to other countries. Economic and trade policies in landlocked countries should therefore only follow this direction if the basic conditions actually exist.

105. Export-oriented growth is only one way to economic success. There is scope for developing sectors that are either high-value or high-value added, that are less dependent on lots of “expensive” imports or that no longer require physical transport e.g. telecommunications or IT, R&D centres. Also, for lightweight or low-volume goods shipping costs are much less of an issue and air travel could even be an alternative. Also, developing a high-level logistics industry that can provide services to transiting operators might help increase the value to transit operations and help new sectors to flourish. Governments should consider such options and establish the best suited trade and economic policy direction for their particular landlocked country, whenever possible in coordination with their region’s markets and conditions. Growth should be equitable and broad-based and when export development goes hand in hand with infrastructure development, impediments to growth can be efficiently removed.

106. The development of coherent and comprehensive trade transportation policies to support the growing importance of transport issues, infrastructure and transit corridors will continue to rank high on government agendas. In a context where tariff barriers will, eventually, no longer hamper the flow of goods, Governments have to make sure that, over time, other barriers disappear as well to ensure that goods reach regional and world markets alike. Being landlocked will then no longer be such a problem as land, sea and airports will become gateways at the origin and destination of real trade corridors.

### Cost reduction

107. Many of the costs related to shipping, freight handling, transit or customs are the avoidable consequences of, for example, complicated and lengthy customs clearance procedures, poorly coordinated control services, high fees, too much red tape, inadequate capacities, poor infrastructure, and poor packaging or loading technologies. Such costs are very much under the control of policymakers in a landlocked country. Corruption and fraud are other areas that require urgent action to decrease costs and, at the same time, install a climate of confidence, stability and security. Governments, either alone or in coordination with their neighbours, can therefore take concrete steps to reduce the high transport cost burden for local companies. It would, for instance, be useful to revisit regulations and procedures of landlocked countries and, wherever possible, harmonize them with regional/international practice.

108. There is a general tendency for shipping costs to fall over time, as better technologies are developed and through the measures described earlier reduce port and customs delays and eventually also create speedier sea travel. Containerization and the resulting ease of moving goods from ships to trucks or trains has already reduced port costs and lead time in countries with such facilities. Shipping costs, which depend on the earlier mentioned issues as well as other factors such as infrastructure and IT development, will certainly one day be much less a barrier than they are today.

### **Legal action**

109. An enabling environment which provides both stability and support for operators and investors, allows for fair competition and punishes abuse, is a prerequisite for economic growth and development in landlocked countries. There is a need to enact necessary concession laws to permit the participation of the private sector or to overhaul transport laws to harmonize them, whenever possible, with regional or international practice. Privatization, liberalization and deregulation should be fostered to establish more competition, improve efficiency and reduce costs.

110. However, in many cases, normative action, i.e. the adoption of new laws, might actually not even be necessary. Instead, more focus should be given to the implementation of already existing laws and regulations, to the development of a conducive institutional framework, to strengthening the capacities of the judiciary, to continuing legal education for professionals and to the enforcement of existing laws as well as bilateral or multilateral agreements.

111. It is very important to enlist the political will to address the issue of implementation of laws, agreements and institutional reform. The signing of agreements will not change either the economic nor the legal situation in a landlocked country. Therefore, subordinate agencies charged with the actual supervision or enforcement of legal rules or agreements need to be controlled and measures need to be taken to reduce fraud, corruption and the spread of the informal sector.

### **Infrastructure development**

112. Infrastructure development remains a high priority for both landlocked and transit countries. This, however, does not only mean building new roads or railway lines, it means regular maintenance work, improving transport supply capacities, strengthening facility management systems including through information technology, in port or railway companies, and a coherent transport policy. Attention has to be given to capacity constraints, i.e. out-of-date equipment including rolling stock, ships, trucks or ports and handling facilities.

113. All this requires funds that often have to come from abroad and are channelled through bilateral or multilateral donor agencies. These financial resources are limited, time-bound and insufficient to finance infrastructure development in the long run. Replacing or supplementing them to achieve a sustainable system of financing infrastructure or maintenance works is, therefore, very important. Options certainly exist in the form of vehicle charges, road taxes, petrol taxes, road charges etc. The receipts of these charges should, in any case, go as

directly as possible towards road construction and maintenance to avoid any additional administrative overhead. In this respect private sector participation and investment, and the pooling of regional funds from public and private sources also deserve increased attention. Building real “trade corridors” to link landlocked countries with world markets, but in a first instance, particularly regional markets will be the challenge of the coming years. Governments should be prepared to include such concepts in their transportation policies.

### **Regional/subregional coordination**

114. Bilateral and multilateral agreements between neighbouring countries are central to any reform and any improvement of a landlocked country’s situation. The cooperation between neighbouring countries is the most essential ingredient in this regard as it makes the coordination of cross-national issues possible. The natural unit for improvement in this setting is not the nation but the region or e.g. the specific transport corridor(s) in question. Integrated and targeted regional and international approaches, which broaden the scope of infrastructure or transport projects, and which could, for example, be initiated by regional intergovernmental groupings that take a lead role, will encourage coordination and cooperation on a level that promises an actual improvement of a landlocked country’s situation. More regional support for such agreements including monitoring and regular review mechanisms, e.g. in the case of transit agreements, is an important aspect in this regard. Trans-border agreements should make borders less of an impediment to the movement of goods. They should facilitate the development of a more “international” transportation infrastructure.

115. Consultations or alliances with neighbouring landlocked or transit countries can help to share experiences, to economize on costs and to increase bargaining powers. International infrastructure or transport agreements such as the TIR regime have been very successful in facilitating transit procedures in the UNECE area and beyond. The development of such a regime might be a useful option for other regions as well.

### **Institutional framework and capacity building**

116. The best computer system in a customs administration will not improve anything if the staff do not know how to operate it. Also, river navigation, especially large-scale navigation, is only safe and reliable if crews are well-trained in new navigation systems and the rules that apply. Port administrations and government institutions too need to be up-to-date with the latest developments. Therefore, institutional and staff capacity building is an important aspect in the improvement of a landlocked country’s state. Public administration reform to improve the performance of all agencies involved, the development of a single-window concept and the streamlining to one-stop-shops for import and export clearance and the strengthening of the whole institutional framework should be given serious consideration. Concrete initiatives include the establishment of region-wide harmonized transit procedures such as the (EU) Convention on Common Transit or trade facilitation measures. The latter are fundamental for any landlocked country and range across a broad analysis and structuring of the key constraints, to the definition of possible and adequate solutions, to computerized transit or customs procedures or to electronic documents (e.g. UN/EDIFACT). Trade facilitation, in the broad sense, requires: institutional capacity building, training measures, awareness raising on technical and broader aspects and the strengthening of trade facilitation bodies and the participation of the business community on the national level.

117. Other very important initiatives aim at increasing the level of service of all agencies involved and include such practical measures as customs clearance at company sites and on-board cargo trains to avoid lengthy delays and high transport costs. The SECI-World Bank TTFSE project, for example, includes a training and distance learning component also for transport operators. All these concrete and practical steps, if rigorously implemented and if backed at the senior political level will, without doubt, contribute to simplified procedures, shorter delays and better transit conditions.

118. Furthermore, certain institutional and organizational structures have to be in place in order to implement regulations, agreements and conventions. The transport sector in landlocked countries and the public institutions need to be adequate to ensure the smooth running of permit granting and documentary procedures.

### **Public-private cooperation and partnerships**

119. The involvement of the private sector in infrastructure development, in consultations, in transit negotiations, in finance operations or facility management is not only useful but also a highly recommended option for landlocked countries. A fruitful dialogue between private-sector representatives and law and policy makers will help to better define the real needs of the market and encourage the search for viable and sustainable solutions. It will facilitate reform efforts and help define transit routes that follow economic and not necessarily political criteria. Private operators might also be better equipped to manage certain facilities, which are in many instances still State-owned. Private companies can also play a substantial role in financing certain projects or in entering concession agreements which can help governments in landlocked countries in many ways. The input of the business sector is also fundamental in defining and implementing trade facilitation procedures.

120. The public sector will always have to play the lead role as the regulator and initiator of infrastructure development. The public sector is the only possible supervisory body. In addition, the public sector has to provide an adequate and coherent framework policy aimed at upgrading professional skills of the private sector in many landlocked and transit countries. A shortage of skilled labour can create bottlenecks that will deter potential investors. The private sector, on the other hand, has many competencies that help do things better, faster and more efficiently and, for its potential to invest funds and for its know-how, should be used to help modernize national infrastructure.

### **International organizations**

121. The plight of landlocked countries is no longer hidden and many international agencies within and outside the United Nations system are today addressing the issue of landlocked countries. The United Nations General Assembly holds regular progress reviews and the lead agency, the United Nations Conference on Trade and Development (UNCTAD), has a specialized unit dealing with landlocked countries. Regional commissions (e.g. ECA, ESCWA, ESCAP, UNECE) too, are paying increased attention to transit, development, customs reform and trade facilitation in landlocked countries. Multilateral donor agencies including the World Bank and the EBRD are funding projects destined to improve the situation of landlocked countries.

122. What remains to be done is a better harmonization of policies, practices and recommendations of all international agencies and bilateral donor agencies involved. Furthermore, there is a need for more funds; aid projects in landlocked and transit countries need to be better coordinated and, in many cases, the scope of the projects (which international organisations can assist in defining and implementing) requires broadening and better focus to include the regional or sub-regional as opposed to a country-specific approach.

123. Some of the more specific concerns of landlocked countries such as their vulnerability, insecurity and dependence on transit countries need to receive heightened attention. Whether this is best done in a Convention that deals with the issues or whether other means are better suited remains to be clarified on a case by case basis.

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