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Midterm review of the Almaty Programme of Action:
Addressing the special needs of landlocked developing
countries within a new global framework for transit
Transport cooperation for landlocked and
transit-developing countries
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Foreign Direct Investment in Landlocked Developing Countries: Trends, Policies and the Way Forward

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1. Setting

Where there is insufficient local factor endowment, foreign direct investment (FDI) may help accelerate development and reduce poverty through employment, transfer of technologies and business processes, knowledge of export markets, and non-debt-creating transfers of capital. FDI can also play a key role in providing the infrastructure (transport, utilities, and telecommunications) that underpins economic activities, freeing scarce Government resources for investment in education, health and other basic social services.¹ However, most landlocked developing countries (LLDCs) have failed to attract FDI on a sufficient scale to offset poor local factor endowment and accelerate economic development with capital imports. (For a complete list of the countries that are members of the LLDC category, see table 2.)

Only a few of the 31 LLDCs have become hosts to sizable FDI. In these mostly resource-rich LLDCs, FDI plays a critical role in restructuring and upgrading economies, particularly in the extractive industries. Often enabled by foreign equity, modernized and competitive industrial capacity has allowed these countries to reap considerable benefits from the current price surge for minerals, oil and natural gas. The economic performance of these few countries boosted the average per capita income of LLDCs from \$361 in 2000 to \$811 in 2007.

However, international capital flows bypass the large majority of LLDCs, where per capita income stagnates at much lower levels. In fact, 10 LLDCs recorded per capita incomes of less than a dollar per day in 2006, placing them among the poorest developing nations. In fact, 16 LLDCs also belong to the category of least developed countries.² LLDCs lag behind in achieving internationally agreed development goals, such as the millennium development goals, and they make little if any progress in reducing extreme poverty.

Economic stagnation and poverty in these countries are, inter alia, a cause of low or negligible inflows of FDI. Lack of territorial access to the sea is a formidable obstacle to FDI inflows on its own. However, the detrimental effect of being landlocked is compounded by the economic, social and institutional realities in LLDCs. Disincentives to foreign investors include small domestic markets, shortages of skilled labour, weak institutional capacity for the formulation and implementation of economic policies, and the lack of a basic functioning infrastructure.

Since the United Nations General Assembly, in resolution 1028 (XI) adopted in 1957, invited Member States to give full recognition to the needs of LLDCs in the area of transit trade, LLDCs and their development partners have put considerable efforts into policies and actions aimed at improving transport infrastructure and trade facilitation. The importance of these two factors for the economic development of LLDCs was reiterated at the International Ministerial Conference of Landlocked and Transit-developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation, held in 2003 as the latest global event dedicated to the problems of LLDCs. This conference adopted the Almaty Programme of Action, the first United Nations programme of action devoted exclusively to addressing LLDCs' special needs.³

The Almaty Programme of Action emphasizes the importance of private sector investment, including FDI, in developing transport infrastructure. However, the national and international efforts focused on this sector have yielded only mixed results. Empirical evidence and in-depth analyses of those countries that have successfully overcome the constraints of being landlocked have shown the need for economic policies and measures that reach beyond issues of transport infrastructure and trade facilitation.

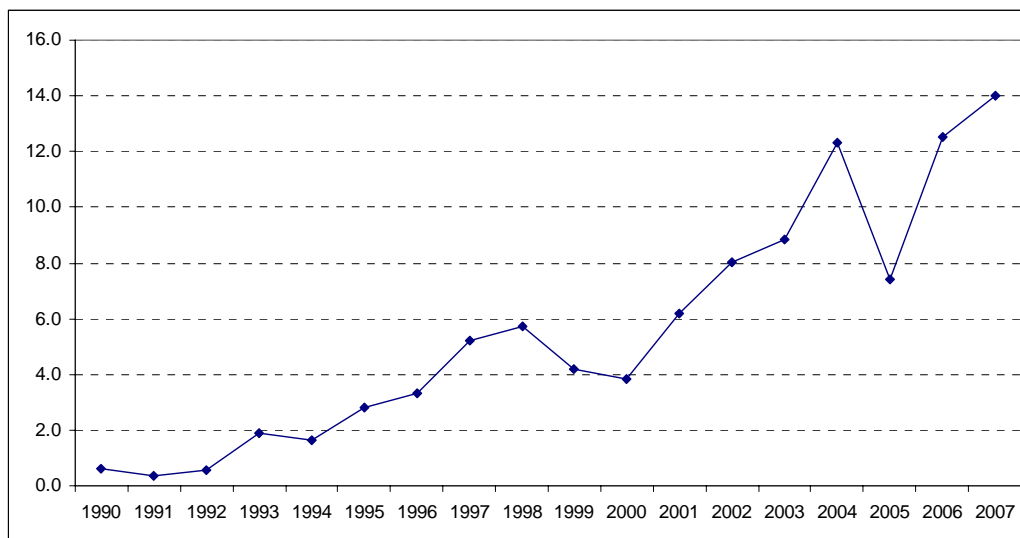
Specifically, what is needed are stronger efforts to modernize the economic base of LLDCs and better integration of these countries into regional trade schemes. The increasing recognition that FDI could make a crucial contribution to the economic development of LLDCs is also reflected in the outcome of the UNCTAD XII Conference, which gave a broad-based mandate to the UNCTAD secretariat to provide specific advisory services, analytical work and capacity-building programmes in the field of investment promotion for LLDCs.⁴

Taking its inspiration from the Almaty Programme of Action, and prepared jointly by two UNCTAD divisions – the Division for Africa, Least Developed Countries and Special Programmes, and the Division on Investment and Enterprise – this paper shifts the scope of economic analysis and policy discussion on LLDCs and FDI away from the development and maintenance of transport infrastructure, towards a broader, economy-wide perspective. By drawing on the most recent data on investment flows to LLDCs and a synopsis of relevant policy developments, it aims to provide a better understanding of (a) the latest trends in FDI flows to LLDCs; (b) challenges and opportunities regarding FDI in LLDCs; and (c) recent policy developments in LLDCs, regarding FDI inflows. Finally, it provides some ideas for the way forward for LLDCs, development partners and international organizations, to enhance the quantity and quality of FDI flows to LLDCs.

2. Recent trends in FDI flows to LLDCs

The slump in FDI flows to LLDCs in 2005, which interrupted the upward trend that had been ongoing since the year 2000, was a temporary halt. Combined FDI inflows to the group of LLDCs rose again in 2006 and 2007, reaching a record level of \$14 billion in 2007. FDI flows to LLDCs doubled in 2007, compared to 2005, and the 2007 level was some 12 per cent higher than the 2006 level.

Figure 1. FDI inflows to LLDCs, 1990–2007
(billions of dollars)



Source: UNCTAD, FDI/TNC (transnational corporation) database at <http://www.unctad.org/fdistatistics>

The upward trend in FDI inflows to LLDCs is remarkable, both in its own right and in comparison with other developing country groupings. From 2000 to 2007, FDI inflows to LLDCs more than tripled, going from \$3.9 billion to \$14 billion. FDI inflows to LLDCs grew significantly faster than the combined FDI flows to all developing countries or to all least developed countries (LDCs). On a per capita basis, FDI to LLDCs amounted to about \$36 in 2007, more than double the \$17 recorded in LDCs.

Table 1. FDI inflows to LLDCs in comparison to other country groupings

	FDI stock as a percentag e of gross domestic product (GDP) 2007	FDI inflows as a share of gross fixed capital formation (per cent) 2007	FDI inflows per capita (dollars) 2007	FDI inflows (in millions of dollars) 2007	Annual average of FDI inflows (millions of dollars) 2000-2007	Annual average growth rate of FDI inflows (per cent) 2000-2007
World	28	15	277	1 833 324	1 041 198	3.5
Developed economies	27	16	1248	1 247 635	717 783	1.2
Developing economies	30	13	94	499 747	291871	8.7
LDCs	24	15	17	13 375	8 989	16.2
LLDCs	30	17	36	14 026	9 137	17.5
Landlocked LDCs	24	19	15	4 146	2 250	23.0

Source: UNCTAD, FDI/TNC database (<http://www.unctad.org/fdistatistics>)

Nevertheless, FDI flows to the group of LLDCs are still very low in absolute terms. The combined share of all LLDCs in global inward FDI was a mere 0.8 per cent in 2007. Singapore alone received more FDI in 2007 than all the 31 LLDCs put together; per capita FDI inflows to Singapore were over a hundred times higher than the LLDC average. Therefore, the impressive growth of FDI inflows to LLDCs since the turn of the century needs to be put in perspective, by taking into account the low starting point.

In addition, a growing differentiation among the LLDCs in terms of their attractiveness for FDI is emerging. The bulk of LLDCs' FDI stocks are concentrated in only a small number of countries. Five LLDCs account for about two-thirds of the LLDCs' total FDI stocks, with Kazakhstan alone hosting more than 40 per cent of it.

The significant differences in FDI stocks reflect starkly differing FDI inflows. For many years, FDI has flown primarily to a few resource-rich and economically more advanced LLDCs. In 2007, Kazakhstan alone accounted for 73 per cent of all FDI inflows to LLDCs. In contrast, inflows to LLDCs with small economies, few exploitable natural resources and low per capita incomes remained insignificant. Fifteen LLDCs, or half of all LLDCs, received less than 12 per cent of total LLDC inflows in 2007. Excluding Kazakhstan, average per capita FDI inflows to the group of LLDCs are below the level of the LDCs. The significant outflow of FDI from Azerbaijan, which has been taking place for several years, is remarkable too.

Table 2. FDI stock in and FDI flows to landlocked developing countries, 2000–2007

	FDI stock, 2007 (millions of dollars)	FDI stock as a percentage of GDP, 2007 (per cent)	FDI stock per capita, 2007 (dollars)	Average annual FDI inflows, 2000– 2006 (millions of dollars)	FDI inflows, 2007 (millions of dollars)	Share of total FDI flows to LLDCs, 2007 (per cent)	Per capita FDI inflows, 2007 (dollars)
Afghanistan	1 115.8	11.4	41.1	115.8	288.4	2.1	10.6
Armenia	2 447.6	32.1	815.3	192.3	660.7	4.7	220.1
Azerbaijan	6 597.6	22.0	779.2	1 354.7	-4 817.0	- 34.3	- 568.9
Bhutan	105.9	8.4	161.0	3.3	78.3	0.6	119.0
Bolivia	5 323.1	44.1	558.9	342.1	204.2	1.5	21.4
Botswana	1 300.0	13.1	690.8	296.3	494.9	3.5	263.0
Burkina Faso	769.6	11.3	52.1	22.2	600.0	4.3	40.6
Burundi	47.6	4.7	5.6	1.8	0.1	0.0	0.0
Central African Republic	204.2	12.3	47.0	10.5	27.2	0.2	6.3
Chad	5 084.9	69.7	471.7	574.2	602.8	4.3	55.9
Ethiopia	3 620.1	21.8	43.6	365.6	254.1	1.8	3.1
Kazakhstan	43 381.3	46.3	2 812.9	3 021.7	10 259.4	73.1	665.2
Kyrgyzstan	818.5	22.0	153.9	64.7	207.9	1.5	39.1
Lao People's Democratic Republic	1 179.8	28.2	201.4	47.8	323.5	2.3	55.2
Lesotho	734.9	47.5	366.0	47.3	105.7	0.8	52.6
Malawi	590.3	23.8	42.4	46.8	54.6	0.4	3.9
Mali	1 325.6	19.3	107.5	141.2	360.0	2.6	29.2
Mongolia	1 326.4	35.7	504.5	124.4	327.7	2.3	124.6
Nepal	126.2	1.3	4.5	3.5	5.7	0.0	0.2
Niger	188.1	4.7	13.2	20.8	27.0	0.2	1.9
Paraguay	2 003.4	17.3	327.0	69.5	189.9	1.4	31.0
Republic of Moldova	1 812.8	43.6	477.8	139.9	459.3	3.3	121.1
Rwanda	170.2	6.0	17.5	10.2	67.2	0.5	6.9
Swaziland	888.5	30.7	778.7	31.9	37.5	0.3	32.9
Tajikistan	1 045.9	32.7	155.3	106.8	400.6	2.9	59.5
The former Yugoslav Republic of Macedonia	3 083.5	41.2	1513.0	247.1	319.7	2.3	156.9
Turkmenistan	3 928.0	49.6	791.1	329.4	804.0	5.7	161.9
Uganda	2 909.2	23.5	94.2	256.4	367.9	2.6	11.9
Uzbekistan	1 648.4	8.7	60.2	109.0	262.0	1.9	9.6
Zambia	5 375.1	47.7	450.9	311.5	983.9	7.0	82.5
Zimbabwe	1 492.0	n/a	111.8	29.7	68.9	0.5	5.2
All LLDCs	100 644.6	30.2	258.0	8 438.5	14 026.2		35.5

Source: UNCTAD, FDI/TNC database (<http://www.unctad.org/fdistatistics>).

Although recent aggregate data for the sectoral and industrial distribution of FDI flows to LLDCs are not available, earlier studies of selected LLDCs point to a concentration in the primary and secondary sectors.⁵ The high shares of commodity-exporting LLDCs, in particular Central Asian LLDCs, Chad and Zambia, in recent total FDI flows, confirm the earlier findings.

This pattern is at odds with the global FDI trend of the past quarter century towards the service sector, and is paradoxical in view of LLDCs' transport handicap. Economic activities that are disadvantaged by long distances from seaports and markets have been the preferred focus of FDI in LLDCs, whereas the provision of services – which is less dependent on distances – has largely been neglected.

However, this paradoxical situation can be explained by several factors. Firstly, in many LLDCs there is a lack of human and institutional capacity in terms of the skilled manpower, managerial resources, know-how and technical infrastructure that are required for the production and international marketing of high-quality services. Improving this situation often depends on investments in education and professional training, which are not attractive to profit-oriented investors. Secondly, even though many LLDCs have liberalized the goods-producing sectors of their economies, liberalization in services often lags behind. And finally, rich deposits of oil and natural gas in several LLDCs have attracted resource-seeking FDI. Such FDI benefits from high global demand and prices, as well as from cost-effective transportation through pipelines to trans-shipment points at seaports or directly to final consumer markets.

3. Challenges and opportunities for FDI in LLDCs

The marginalization of LLDCs in global FDI flows is related to a combination of deterrents that include locational disadvantages and economic constraints. Locational disadvantages include geographical isolation, lack of territorial access to the sea, and distance from markets, while economic constraints include diseconomies of scale due to small domestic markets, poor endowments of natural resources, inadequate skilled human capital and weak institutional capacity, as well as unfavourable macroeconomic policies and regulatory frameworks that limit, if not forbid, FDI flows to various sectors.⁶

In particular, high transport-related transaction costs are severe disincentives to FDI inflows. An uncompetitive transport sector, unreliable transport infrastructure and weak telecommunication services have made transaction costs far greater in LLDCs than elsewhere in the world. This is especially true of African LLDCs. Measured as a freight-to-import ratio, 18 out of 30 LLDCs studied had freight costs of 10 per cent or more of the value of traded goods, with seven African LLDCs exceeding 20 per cent and five African LLDCs ranging between 25 per cent and 43 per cent.⁷

However, freight costs constitute only part of the higher transaction costs caused by the geographical isolation of LLDCs. Costs related to delays and low levels of reliability and predictability in transport also weigh heavily in production chains based on cost-effective and just-in-time delivery.⁸

In fact, transport routes with poor infrastructure and weak transit transport capacity run counter to the transnational corporation (TNC) strategy of globally outsourcing operations when this improves their competitive edge. Such efficiency-seeking FDI flows primarily to export-oriented activities, and it seeks to exploit comparative advantages of production centres in different geographical locations. This strategy implies outsourcing, specialization and intensive intra-firm trade among TNC affiliates, which means that infrastructure and the capacity for timely, cost-effective production and delivery of goods are critical factors in locational decisions for efficiency-seeking investment.⁹

Moreover, in order to hedge transport and transit risks, companies would need to take preventive measures, such as increasing their inventories or switching the mode of transport (e.g. from land to air). These preventive measures are costly and may negate the expected economic benefits of investment in these countries.

However, higher transaction costs are not the only factor that deters FDI flows to LLDCs. Market-seeking FDI is attracted by market size and the potential for market growth.¹⁰ If seen from the perspective of market-seeking FDI, most LLDCs are not particularly attractive host countries. In general, they are economies with small markets. Gross domestic product (GDP) per capita in LLDCs equals about one-quarter of the GDP per capita for all developing countries, excluding China. Moreover, 16 LLDCs are classified as LDCs, which implies low purchasing power per capita, weak domestic markets, deficiencies in social sectors and economic vulnerability to natural and economic shocks.

In fact, most FDI inflows to LLDCs can be classified as resource-seeking. Relatively low local production costs, the availability of efficient transport infrastructure for exports and high international commodity prices may outweigh the risks and costs associated with long distances to markets. Moreover, the concentration of FDI in the oil and natural gas sectors of LLDCs shows that constraints on international investment and trade are reduced when the value of exported goods is high as compared to transport costs, and when cost-effective and efficient transport services are provided.

Are LLDCs not endowed with large deposits of minerals and energy commodities therefore bound to be marginalized in terms of FDI inflows and deprived of a major factor of economic growth and development? Empirical evidence from several small and resource-poor landlocked countries that have successfully adjusted their economies to their geographical constraints demonstrates that these countries can attract large-scale FDI inflows. Landlocked countries such as Austria, Luxembourg and Switzerland have been recipients of steady and sizeable flows of FDI for many decades. More recently, landlocked transition economies such as the Czech Republic, Hungary and Slovakia have become hosts to FDI flows that are comparable to those of neighbouring sea-linked countries. In addition to economic restructuring, other factors, such as proximity to, cooperation with and integration into a large regional trading bloc, have also helped these countries to become more attractive for FDI.

Several lessons can be drawn from these landlocked countries that have succeeded in attracting FDI:

- A distinction needs to be made between the impact of geographical constraints on hosting FDI, and economic and institutional obstacles that have an adverse effect on the attractiveness of these countries for FDI flows.
- Geographical obstacles to FDI can be offset by a favourable investment climate, characterized by stable economic, legal and institutional frameworks; a skilled and flexible labour force; competitive fiscal and exchange rate regimes; liberal policies on capital movements; and continuous efforts to improve institutional and human capacities.
- A strategic policy choice by LLDCs should be able to attract FDI to industries and activities that are not sensitive to distance from markets. This includes services and high-value-added goods. In this context, a major issue is the

development of location-specific activities that enable these countries to take part in the global service and knowledge economy.

- Modern information and communication technology (ICT) has become indispensable in the globalizing world economy. Successful landlocked countries have liberalized their telecommunications sectors and mobilized considerable amounts of public and private investment to build high-capacity telecommunications networks. Moreover, a vibrant telecommunications sector not only helps to offset geographical disadvantages in transborder contacts, but also facilitates the development of non-traditional economic activities that rely on the availability of ICT services.
- Economically successful landlocked countries are either in advanced regional economic integration organizations, or maintain close economic cooperation arrangements with them. Their landlocked-related geographical and economic disadvantages have virtually disappeared in the course of strong regional cooperation and integration processes with large markets possessing high purchasing power.

4. Recent policy developments in LLDCs regarding FDI inflows

Governments of LLDCs have increasingly realized that FDI can be crucial as a source of capital, know-how, technology, and access to international markets, and also for the achievement of social objectives, such as job creation and poverty reduction. Many LLDCs have begun to actively implement policies to attract larger FDI inflows by providing investment guarantees and fiscal incentives, guaranteeing national treatment, allowing profit repatriation and simplifying administrative procedures. As part of economic liberalization policies, regulatory frameworks affecting FDI have been changed and new economic sectors have opened up for private sector activities. LLDC Governments are increasingly prepared to cooperate with foreign investors, sometimes in public–private partnerships.

According to UNCTAD's annual survey on changes to national laws and regulations, 13 LLDCs introduced 28 regulatory changes affecting FDI in 2002–2003, in the period leading up to the Almaty Programme of Action. The overwhelming majority of these regulatory changes, some 85 per cent, encouraged inward FDI. About 35 per cent of all policy measures were related to investment promotion and 28 per cent were sector-specific. During the period 2006–2007, 24 LLDCs enacted 49 modifications to their laws and regulations. The share of regulatory measures encouraging FDI declined to 60 per cent, while the share of policy measures related to investment promotion and the share of sector-specific policy changes remained largely unchanged, at 34 per cent and 30 per cent, respectively.

A large number of recent sector-specific liberalization measures providing opportunities for FDI affected the utilities and services sectors. For example, Botswana, Burkina Faso, and Burundi introduced legislation in 2006 that allowed partial or full foreign ownership in the telecommunications sector. Ethiopia approved foreign concessions for its railways company, and Swaziland opened up its insurance sector to FDI.¹¹

Several LLDCs facilitated the admission and/or establishment of foreign investors in their countries through the creation of investment promotion advisory councils or one-stop shops for new businesses. Other recently introduced measures to

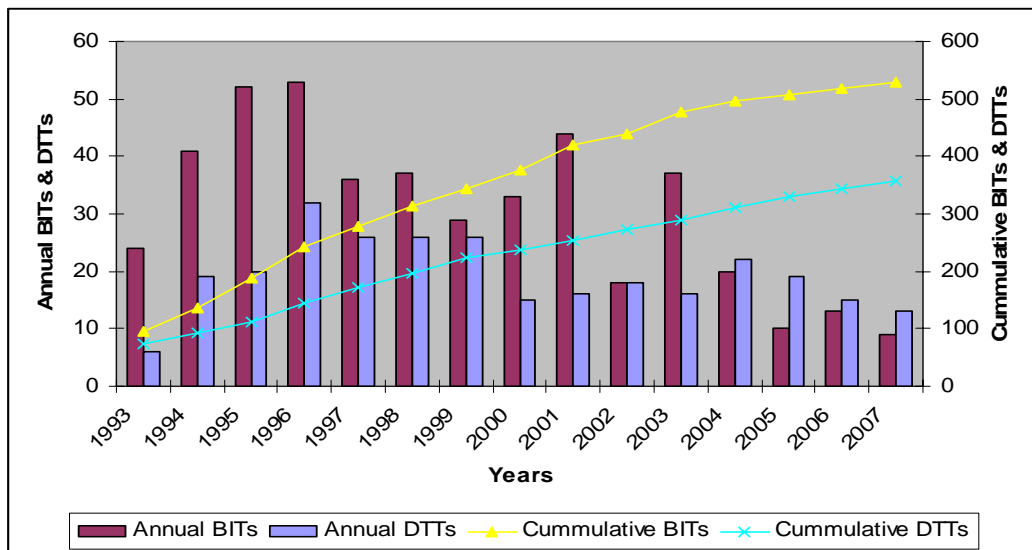
attract FDI include tax reductions (Lesotho) and the creation of specialized investment zones or parks (Botswana). Mongolia revised its tax regime with a view to improving the investment climate, by reducing the corporate tax rate.

However, the share of policy changes favourable to attracting FDI declined to 70 per cent in 2006–2007. Unfavourable changes aimed at increasing the local share of FDI-generated profits, or protecting local companies from foreign competition. For example, Zambia raised various taxes and royalties, and Swaziland reserved the retail trade sector for local firms. In Bolivia, where most companies had frozen new investments after a May 2006 Government decree to nationalize oil and gas resources, all foreign TNCs agreed to convert their production-sharing contracts into operation contracts and hand over control of sales to YPF, the Bolivian State-run oil company.¹²

All LLDCs except Bhutan have concluded bilateral investment treaties (BITs). Moldova, with 38 BITs, has the highest number of treaties to date. LLDC members of the Commonwealth of Independent States (CIS) were the most active in concluding BITs over the last decade. On average they concluded 29 BITs each, from 1992 to 2007. In the same vein, the 15 African LLDCs had concluded 158 BITs by the end of 2007. Zimbabwe, with 27 BITs, leads the group. In total, LLDCs had signed 528 BITs by the end of 2007 (see fig. 1).

Similarly, LLDCs, with the exception of Bhutan and Lesotho, have concluded many double-taxation treaties (DTTs), mainly with developed countries. Between 2001 and 2007, 19 LLDCs signed 126 DTTs, increasing the total number of DTTs concluded by the group to 357 agreements. The Republic of Moldova leads the group, with 42 DTTs, and Kazakhstan is next with 37. Zambia leads African LLDCs, having concluded 19 DTTs by the end of 2007.

Figure 2: Number of BITs and DTTs concluded by LLDCs, annual and cumulative, 1993–2007



Source: UNCTAD, FDI/TNC database

LLDCs have also concluded international investment agreements other than BITs and DTTs. Between 2000 and 2007, they concluded 16 economic integration agreements (EIAs) (excluding agreements that were concluded as members of regional integration organizations (REIOs)). Most of these agreements were cooperation

agreements with the European Union and trade and investment framework agreements with the United States of America.

Development partners have also supported LLDCs by liberalizing market access for certain products originating in those countries. The most comprehensive initiatives in this respect are the Everything But Arms (EBA) regulation introduced by the European Union, and the African Growth and Opportunity Act (AGOA) from the United States.

The EBA regulation grants duty-free and quota-free access for products from LDCs – of which 16 are landlocked – with the exception of arms and munitions. AGOA¹³ provides preferential access to the United States market, especially for apparel and textiles, for selected States in sub-Saharan Africa, including 13 LLDCs. In addition, the AGOA III programme promotes investment in infrastructure projects, including in transport, ICT and agriculture, and encourages bilateral investment agreements. Although these measures have not been formulated specifically to help LLDCs attract FDI, preferential market access may provide them with a critical advantage when location decisions are made by foreign investors.

Many LLDCs have also strengthened their institutions that formulate investment promotion policies and strategies. Currently, 27 LLDCs¹⁴ have national investment promotion agencies (IPAs), whose primary function is to promote their countries as international investment destinations. Most of these IPAs are members of the World Association of Investment Promotion Agencies (WAIPA). This provides them with the benefit of global networking activities and with access to FDI-related information and training programmes.

Membership of regional integration organizations (REIOs) helps to address several geographical and economic constraints on FDI inflows. Currently, LLDCs are members of 12 different REIOs with investment provisions.¹⁵ Many of these have also enacted regional trade agreements (RTAs) to liberalize trade among member States, by abolishing customs duties and eliminating non-tariff barriers.

Table 3: Membership of LLDCs in selected regional integration organizations (REIOs) and economic integration agreements (EIAs)

LLDC	Membership in REIOs with investment provisions	Bilateral and interregional EIAs with investment provisions
Afghanistan		Trade and Investment Framework Agreement with the United States (2004)
Bhutan	BIMSTEC, SAARC	
Bolivia	ANDEAN	Cooperation Agreement between the European Community and the Andean Community (2003); Agreement on Trade and Investment Promotion with the Republic of Argentina (2004); Economic Complementation Agreement with Peru (2004)
Botswana	COMESA, SADC	
Burkina Faso	ECOWAS, WAEMU	
Burundi	ECGL	
Central African Republic	CEMAC	
Chad	CEMAC	
Ethiopia	COMESA	

LLDC	Membership in REIOs with investment provisions	Bilateral and interregional EIAs with investment provisions
Kazakhstan		Trade and Investment Framework Agreement with the United States (2004)
Lao People's Democratic Republic	ASEAN	Agreement on trade relations with the United States (2003)
Lesotho	COMESA	
Malawi	COMESA, SADC	
Mali	ECOWAS, WAEMU	
Mongolia		Trade and Investment Framework Agreement with the United States (2004)
Nepal	BIMSTEC, SAARC	
Niger	ECOWAS, WAEMU	
Paraguay	MERCOSUR	Economic Complementation Agreement between MERCOSUR and ANDEAN (2003)
Republic of Moldova	CEFTA	Central European Free Trade Agreement (CEFTA) (2006)
Rwanda	ECGL	Trade and Investment Framework Agreement with the United States (2006)
Swaziland	SADC	
Tajikistan		Trade and Investment Framework Agreement with the United States (2004)
The former Yugoslav Republic of Macedonia	CEFTA	Free Trade Agreement with the European Free Trade Association (EFTA) States (2000); Stabilization and Association Agreement with the European Community (2001); Central European Free Trade Agreement (CEFTA) (2006)
Turkmenistan		Trade and Investment Framework Agreement with the United States (2004)
Uganda	COMESA	
Uzbekistan		Trade and Investment Framework Agreement with the United States (2004)
Zambia	SADC, COMESA	
Zimbabwe	SADC, COMESA	

5. The way forward

Attracting FDI for development will continue to be a formidable challenge for most LLDCs. Based on the preceding analysis, the best choice appears to be the implementation of two complementary strategies. The first of these is to implement policies and measures that target the factors that make LLDCs unattractive for FDI. The second strategy is to avoid excessive transaction costs and other landlocked-related impediments to international trade, by attracting FDI to economic activities that are less sensitive to market distance.

The implementation of the first strategy is a complex and daunting task. The Almaty Programme of Action calls for a series of actions that directly addresses landlocked-related impediments to FDI and fits well within the first strategy. The full and effective implementation of the Almaty Programme of Action is therefore an important step towards the attenuation of investment-detering factors.

Key policies and measures of such a strategy include:

- The upgrading of transport and communication infrastructure. The Almaty Programme of Action lists seven priority sectors for infrastructure development and maintenance: rail transport, road transport, ports, inland waterways, pipelines, air transport and communications. These infrastructure sectors are areas for FDI in themselves, and LLDCs may be able to attract investors if they can provide low political risk, larger markets through regional integration, and joint financing opportunities.
- Institutional reform and continuous efforts to improve the policy environment for FDI. The ultimate objective should be to attract larger and more diversified FDI inflows by facilitating the entry, the establishment and the retention of FDI in LLDCs.
- Better integration of LLDCs in regional cooperation and integration schemes, with a view to making landlocked countries land-linked economies. Regional cooperation and integration, as emphasized in the Almaty Programme of Action, addresses market size and other constraints to FDI, and helps to create “win-win” situations between LLDCs and their transit neighbours, in particular in transport infrastructure projects.
- Public–private sector partnerships to develop transport infrastructure and efficient transit transport systems. The international community – including financial and development institutions and donor countries – should join these partnerships by providing financial assistance, technical assistance, and capacity-building for the public negotiation and management of such endeavours.

The second strategy requires economic restructuring, to allow for the specialized production of tradables that are less affected by transport costs and distance. LLDCs should promote FDI in services such as tourism, back-office services, and in some cases even banking or other financial services. In manufacturing, they should promote high-value but low-bulk goods, such as high-precision instruments, IT components or pharmaceuticals. In agriculture, LLDCs should target high-value products, such as cut flowers or off-season fruits and vegetables, that lend themselves to expeditious and cost-efficient air transport.

Policies and measures to implement this strategy include:

- Facilitating entry, establishment and protection of FDI in these sectors.
- Targeted incentive schemes for such economic activities, including tax breaks and tax holidays, partnerships with research and development (R&D) institutions, grants for employment creation, and financial assistance for the acquisition of industrial/commercial premises or R&D facilities. However, fiscal incentives should be used in a nuanced way, taking into account the long-term impact on Government revenue.
- Strengthening the quantity and quality of the local workforce to attract FDI in sectors that rely on skilful and specialized labour and on technical institutions and research centres engaged in the development of tradables, in line with the objectives of this strategy.
- Concerted investment promotion efforts, to target industries and companies chosen by LLDC Governments, as well as investment facilitation and aftercare

programmes at the national and sub-national levels, to assist in the establishment and operation of new projects.

Although the primary responsibility for providing an attractive investment environment for foreign investors rests with the LLDC Governments, home countries generating FDI should support FDI-seeking efforts by LLDCs. In fact, many home country Governments encourage investments in LLDCs from major companies based in their countries, by adopting and implementing economic, financial and legal incentives. Such measures could include investment guarantees, co-financing, tax relief, and information on investment opportunities in LLDCs, as well as the conclusion of investment agreements and double-taxation treaties with LLDCs.

Moreover, the Almaty Programme of Action calls for partnerships between the public and private sectors, both domestic and foreign, to attain its fundamental objectives. Such partnerships are also important for the creation of new investment opportunities, and should be actively pursued by both LLDC governments and their bilateral and multilateral development partners.

Under its Priority Four, the Almaty Programme of Action attributes a key role to the international community in its implementation, including the encouragement of FDI for development. Relevant United Nations organizations, such as UNCTAD, the World Bank, regional commissions and other multilateral development partners should play a more proactive role in assisting LLDCs to create conditions that attract more FDI. Pertinent actions include: advisory services, training in and dissemination of investment-promotion best practices, review of and advice on investment policies, economic analysis of investment opportunities, the organization of regional and sectoral investor meetings, assistance in forging genuine partnership between the private and public sectors, and other measures that raise awareness of both the need and the opportunities for FDI in LLDCs.

Annex 1

List of investment policy reviews and investment guides for LLDCs

UNCTAD, Investment Policy Review, Zambia, 2006, UNCTAD/ITE/IPC/2006/14

UNCTAD, Investment Policy Review, Rwanda, 2006, UNCTAD/ITE/IPC/2006/11

UNCTAD, Investment Policy Review, Botswana, 2003, UNCTAD/ITE/IPC/Misc.10

UNCTAD, Investment Policy Review, Lesotho, 2003, UNCTAD/ITE/IPC/2003/4

UNCTAD, Investment Policy Review, Nepal, 2003, UNCTAD/ITE/MISC/2003/1/Rev.1

UNCTAD, Investment Policy Review, Ethiopia, 2002, UNCTAD/ITE/IPC/Misc.4

UNCTAD, Investment Policy Review, Uganda, 2000, UNCTAD/ITE/IIP/Misc.17

UNCTAD, Investment Policy Review, Uzbekistan, 1999, UNCTAD/ITE/IIP/Misc.13

UNCTAD/ICC, An Investment Guide to Rwanda, 2006, UNCTAD/ITE/IIA/2006/3

UNCTAD/ICC, An Investment Guide to Mali, 2006, UNCTAD/ITE/IIA/2006/2

UNCTAD/ICC, An Investment Guide to Uganda, 2004, UNCTAD/ITE/IIA/2004/3

UNCTAD/ICC, An Investment Guide to Ethiopia, 2004, UNCTAD/ITE/IIA/2004/2

UNCTAD/ICC, An Investment Guide to Nepal, 2003, UNCTAD/ITE/IIA/2003/2

Annex 2

Statistical information on FDI flows to and from LLDCs

Table A1: FDI inflows and outflows

Table A2: FDI inward and outward stocks

Table A3: FDI inflows and outflows as a percentage of gross fixed capital formation

Table A4: FDI inward and outward stocks as a percentage of gross domestic product

Table A5: Cross-border merger and acquisition overview, 1990–2007

Table A6: Country rankings by inward FDI performance index, inward FDI potential index and outward FDI performance index, 2005–2007

Explanations for table A6:

The UNCTAD inward FDI performance index is a measure of the extent to which a host country receives inward FDI relative to its economic size. It is calculated as the ratio of a country's share in global FDI inflows to its share in global GDP. The UNCTAD outward FDI performance index is calculated in the same way as the inward FDI performance index: it is the share of a country's outward FDI in global FDI outflows, as a ratio of its share in world GDP. The UNCTAD inward FDI potential index is based on 12 economic and structural variables, measured by their respective scores on a range of 0–1. (Raw data is available at <http://www.unctad.org/wir>.) It is the unweighted average of scores on the following variables: GDP per capita, rate of growth of real GDP, share of exports in GDP, telecommunications infrastructure (average number of telephone lines per 100 inhabitants, average number of mobile phones per 100 inhabitants), commercial energy use per capita, share of R&D expenditures in gross national income, share of tertiary-level students in the population, country risk, exports of natural resources as a percentage of the world total, imports of electronic and automobile parts and components as a percentage of the world total, exports of services as a percentage of the world total, and inward FDI stock as a percentage of the world total.

Source of data for tables A1 to A6: UNCTAD FDI database at <http://www.unctad.org/fdistatistics>

**Table A1. FDI inflows and outflows
(in millions of dollars)**

Country	FDI inflows			FDI outflows		
	2000–2005 (annual average)	2006	2007	2000–2005 (annual average)	2006	2007
Afghanistan	95	242	288	0	..	..
Armenia	149	453	661	2	3	-3
Azerbaijan	1681	-601	-4817	616	705	286
Bhutan	3	6	78	0	..	..
Bolivia	352	281	204	3	3	4
Botswana	264	489	495	109	51	51
Burkina Faso	20	34	600	-1	1	-3
Burundi	2	0	0	0	..	..
Central African Republic	9	18	27	0	..	..
Chad	553	700	603	0	..	..
Ethiopia	336	545	254	0	..	..
Kazakhstan	2488	6224	10259	-190	-387	3161
Kyrgyzstan	45	182	208	9	0	0
Lao People's Democratic Republic	25	187	324	1	..	..
Lesotho	40	92	106	0	..	..
Malawi	50	30	55	1	1	1
Mali	151	83	360	4	1	1
Mongolia	97	290	328	0	..	..
Nepal	5	-7	6	0	..	..
Niger	16	51	27	-1	-1	1
Paraguay	53	170	190	5	4	8
Republic of Moldova	123	242	459	1	-1	12
Rwanda	9	16	67	0	14	13
Swaziland	31	36	37	-3	2	3
Tajikistan	68	339	401	0	..	..
The former Yugoslav Republic of Macedonia	218	424	320	1	0	-1
Turkmenistan	262	731	804	0	..	..
Uganda	232	400	368	0	..	..
Uzbekistan	95	195	262	0	..	..
Zambia	261	616	984	0	..	..
Zimbabwe	28	40	69	3	0	3
Landlocked countries	7761	12506	14026	559	397	3535
Developing economies	237038	412990	499747	91653	212258	253145
World	847541	1411018	1833324	814013	1323150	1996514

**Table A2. FDI inward and outward stocks
(in millions of dollars)**

Country	Inward stocks			Outward stocks		
	1995	2000	2007	1995	2000	2007
Afghanistan	12	17	1116	..	..	..
Armenia	66	583	2448	..	1	13
Azerbaijan	330	3735	6598	..	5	4676
Bhutan	3	4	106	..	..	..
Bolivia	1564	5188	5323	17	29	94
Botswana	1126	1827	1300	650	517	809
Burkina Faso	74	28	770	13	0	6
Burundi	34	47	48	1	2	2
Central African Republic	80	104	204	41	43	45
Chad	331	577	5085	70	70	70
Ethiopia	165	941	3620	..	..	..
Kazakhstan	2895	10078	43381	0	16	2149
Kyrgyzstan	144	432	819	..	33	18
Lao People's Democratic Republic	211	556	1180	8	21	20
Lesotho	179	330	735	0	2	2
Malawi	230	358	590	..	8	20
Mali	342	132	1326	23	22	44
Mongolia	38	182	1326	..	..	..
Nepal	14	72	126	..	..	..
Niger	327	45	188	109	117	114
Paraguay	643	1327	2003	179	214	167
Republic of Moldova	97	449	1813	18	23	41
Rwanda	51	55	170	..	..	..
Swaziland	535	536	889	135	87	72
Tajikistan	40	136	1046	..	..	..
The former Yugoslav Republic of Macedonia	87	540	3084	..	16	39
Turkmenistan	415	949	3928	..	..	..
Uganda	277	807	2909	..	..	..
Uzbekistan	106	698	1648	..	..	..
Zambia	1553	2332	5375	..	..	..
Zimbabwe	496	1238	1492	129	234	245
Landlocked developing countries	12463	34302	100645	1394	1461	8646
Developing economies	851534	1738255	4246739	329400	861842	2288073
World	2914356	5786700	15210560	2941198	6148211	15602339

**Table A3. FDI inflows and outflows as a percentage of gross fixed capital formation
(expressed as percentages)**

Country	Inflows as a percentage of gross fixed capital formation				Outflows as a percentage of gross fixed capital formation			
	1990–2000 (annual average)	2005	2006	2007	1990–2000 (annual average)	2005	2006	2007
Afghanistan	0.1	18.8	16.8	16.0	0.0	..	..	..
Armenia	17.2	16.4	20.0	16.9	0.0	0.5	0.1	-0.1
Azerbaijan	23.6	30.7	-9.6	-81.8	0.0	22.3	11.3	4.9
Bhutan	0.3	2.1	1.2	11.3	0.0	..	..	..
Bolivia	32.5	-23.2	17.2	9.6	0.2	0.2	0.2	0.2
Botswana	1.5	14.7	26.9	24.4	0.8	2.9	2.8	2.5
Burkina Faso	1.5	2.7	2.4	37.0	0.3	0.0	0.1	-0.2
Burundi	2.6	0.5	0.0	0.0	0.3	..	..	..
Central African Republic	2.0	21.5	22.4	29.0	2.2	..	..	..
Chad	17.2	48.2	45.4	34.8	2.0	..	..	..
Ethiopia	5.8	11.4	20.8	7.6	0.0	..	..	..
Kazakhstan	22.5	12.3	25.4	32.5	0.1	-0.9	-1.6	10.0
Kyrgyzstan	16.7	10.8	38.3	33.1	1.4	0.0	0.0	0.0
Lao People's Democratic Republic	27.6	3.0	17.7	26.1	1.1	..	..	..
Lesotho	5.2	11.2	15.5	16.7	0.0	..	..	..
Malawi	7.5	14.3	15.9	26.2	0.4	0.5	0.7	0.7
Mali	4.8	26.4	7.6	30.1	0.0	-0.1	0.1	0.1
Mongolia	6.0	21.0	26.6	24.3	0.0	..	..	..
Nepal	0.6	0.2	-0.5	0.4	0.0	..	..	..
Niger	4.0	5.6	7.7	3.5	2.4	-0.8	-0.1	0.1
Paraguay	8.8	3.7	9.6	8.3	0.5	0.4	0.2	0.3
Republic of Moldova	15.0	31.9	29.1	37.3	0.5	0.0	-0.1	1.0
Rwanda	1.5	3.2	3.3	12.2	0.0	..	3.0	2.4
Swaziland	27.8	-9.8	7.7	7.5	5.5	-4.8	0.5	0.6
Tajikistan	9.1	27.5	111.5	99.9	0.0	..	..	..
The former Yugoslav Republic of Macedonia	8.4	9.8	38.6	24.6	0.0	0.3	0.0	-0.1
Turkmenistan	10.3	31.4	47.0	41.9	0.0	..	..	..
Uganda	8.3	17.6	15.8	12.3	0.0	..	..	..
Uzbekistan	1.5	2.8	5.5	5.6	0.0	..	..	..
Zambia	31.1	19.9	22.8	35.6	0.0	..	..	..
Zimbabwe	6.2	202.0	39.8	153.8	1.0	2.2	0.0	6.9
Landlocked developing countries	11.2	14.4	18.9	17.3	0.7	3.4	0.9	6.3
Developing economies	9.2	11.4	12.5	12.6	3.8	4.3	6.5	6.4
World	7.7	9.7	12.9	14.8	7.9	9.0	12.2	16.2

**Table A4. FDI inward and outward stocks as a percentage of gross domestic product
(in percentages)**

Country	FDI inward stocks as percentage of gross domestic product					FDI outward stocks as percentage of gross domestic product				
	1990	2000	2005	2006	2007	1990	2000	2005	2006	2007
Afghanistan	0.3	0.6	8.6	10.0	12.6	..	..	..	..	..
Armenia	..	30.5	27.8	27.8	26.6	..	0.0	0.2	0.2	0.1
Azerbaijan	..	70.8	90.1	54.1	22.4	..	0.1	27.8	20.9	15.9
Bhutan	0.7	1.0	2.6	3.0	8.1	..	..	..	..	..
Bolivia	21.1	61.8	51.4	44.7	40.6	0.1	0.4	0.9	0.8	0.7
Botswana	37.5	37.4	8.3	8.1	11.3	12.8	10.6	8.2	7.7	7.0
Burkina Faso	1.2	1.2	1.4	2.8	11.3	0.1	0.0	0.1	0.1	0.1
Burundi	2.6	6.6	5.9	5.1	4.8	0.0	0.3	0.3	0.3	0.2
Central African Republic	7.4	11.5	12.0	12.5	11.9	1.4	4.8	3.4	3.1	2.6
Chad	16.2	41.7	64.3	67.5	71.7	2.4	5.1	1.2	1.1	1.0
Ethiopia	1.1	12.0	24.8	25.3	18.6	..	..	..	..	..
Kazakhstan	..	55.1	44.4	40.1	41.9	..	0.1	-2.0	-1.2	2.1
Kyrgyzstan	..	31.5	22.9	22.4	21.8	..	2.4	6.0	0.1	0.5
Lao People's Democratic Republic	1.4	32.1	23.3	24.6	30.5	..	1.2	0.7	0.6	0.5
Lesotho	13.4	38.2	36.9	43.5	45.9	0.0	0.2	0.1	0.1	0.1
Malawi	13.0	20.5	24.2	24.1	23.7	..	0.5	0.8	0.8	0.8
Mali	9.1	5.0	15.9	16.2	20.5	0.9	0.8	0.8	0.7	0.7
Mongolia	0.0	19.2	34.3	35.6	34.0	..	..	..	..	..
Nepal	0.3	1.3	1.8	1.7	1.6	..	..	..	..	..
Niger	11.4	2.7	3.1	4.8	4.8	2.2	7.0	3.5	3.3	2.9
Paraguay	8.5	18.7	17.2	19.2	16.7	2.7	3.0	2.1	1.7	1.4
Republic of Moldova	..	34.8	35.4	38.1	41.2	..	1.8	1.0	0.9	0.9
Rwanda	1.3	3.2	3.7	4.5	6.4	..	..	..	..	..
Swaziland	38.5	38.6	29.8	30.4	30.3	4.4	6.3	2.7	2.5	2.5
Tajikistan	..	15.8	13.2	23.0	28.2	..	..	..	..	..
The former Yugoslav Republic of Macedonia	..	15.0	35.9	43.8	41.1	..	0.4	1.1	0.6	0.5
Turkmenistan	..	22.8	41.3	48.1	49.1	..	..	..	..	..
Uganda	0.2	14.1	22.0	23.4	25.9	..	..	..	..	..
Uzbekistan	..	5.1	8.7	8.6	7.4	..	..	..	..	..
Zambia	27.3	72.0	51.6	40.0	48.2	..	..	..	..	..
Zimbabwe	3.2	22.0	62.1	80.6	189.5	0.9	4.2	10.9	13.7	31.2
Landlocked developing countries	8.5	28.5	33.6	31.9	30.2	2.4	2.0	3.0	2.7	3.7
Developing economies	13.6	25.2	25.5	26.7	29.8	4.0	12.9	12.6	14.2	16.5
World	9.1	18.1	22.5	25.5	27.9	8.5	19.4	23.6	26.3	28.9

Table A5. Cross-border merger and acquisition overview, 1990–2007
(millions of dollars)

Country / region	Sales				Purchases			
	1990–2000 (annual average)	2005	2006	2007	1990–2000 (annual average)	2005	2006	2007
World	412 471	929 362	1 118 068	1 637 107	412 471	929 362	1 118 068	1 637 107
Developing economies			131	152				179
	41 212	95 738	831	942	29 433	99 455	156 807	969
Afghanistan	-	-	-	-	1	-	-	-
Armenia	18	4	-	423	-	-	-	-
Azerbaijan	3	-	-	-	-	-	-	-
Bhutan	-	-	-	-	-	-	-	-
Bolivia	202	-	-	36	7	-	39	112
Botswana	2	-	57	1	1	-	-	-
Burkina Faso	-	-	289	-	-	-	-	-
Burundi	-	-	-	-	-	-	-	-
Central African Republic	1	-	-	-	0	-	-	-
Chad	2	-	-	-	0	-	-	-
Ethiopia	4	-	-	-	0	-	-	-
Kazakhstan	482	1 474	-	2 034	16	430	3 254	3 139
Kyrgyzstan	-	150	-	179	0	-	-	-
Lao People's Democratic Republic	1	-	-	-	0	-	-	-
Lesotho	-	-	-	-	0	-	-	-
Malawi	1	-	-	5	0	-	-	-
Mali	2	-	1	-	0	-	-	-
Mongolia	0	-	2	7	0	-	-	-
Nepal	0	-	-	-	0	-	15	-
Niger	-	-	-	-	0	-	-	-
Paraguay	4	-	-	10	-	-	-	-
Republic of Moldova	3	-	10	24	0	-	-	-
Rwanda	0	-	-	-	0	-	-	-
Swaziland	-	-	-	-	-	-	-	-
Tajikistan	-	12	-	5	-	-	-	-
The former Yugoslav Republic of Macedonia	8	0	280	53	0	-	-	-
Turkmenistan	-	47	-	-	-	-	-	-
Uganda	180	-	-	-	0	-	-	-
Uzbekistan	1	-	110	-	-	-	-	-
Zambia	47	8	4	-	-	29	-	25
Zimbabwe	14	0	-	49	10	-	1	5

Note: The data cover only those deals that involve acquisition of an equity of more than 10 per cent.

Table A6. Country rankings by inward FDI performance index, inward FDI potential index and outward FDI performance index, 2005–2007^a
(millions of dollars)

Country	Inward FDI performance index		Inward FDI potential index		Outward FDI performance index	
	2006	2007	2005	2006	2006	2007
Afghanistan	..	..	..	..	..	..
Armenia	29	39	72	73	87	102
Azerbaijan	14	140	67	64	10	26
Bhutan						
Bolivia	132	129	87	90	98	103
Botswana	55	66	78	78	69	67
Burkina Faso	130	75	126	127	117	113
Burundi	..	..	..	..	..	..
Central African Republic	..	..	..	..	..	..
Chad	..	..	..	..	..	..
Ethiopia	59	92	135	134	..	..
Kazakhstan	26	23	49	46	128	46
Kyrgyzstan	45	55	116	110	29	112
Lao People's Democratic Republic	..	..	..	..	..	..
Lesotho	..	..	..	..	..	..
Malawi	79	109	138	137	89	97
Mali	85	74	120	123	107	110
Mongolia	19	16	75	71	..	..
Nepal	138	136	137	136	..	..
Niger	121	125	129	133	103	117
Paraguay	118	116	108	108	88	96
Republic of Moldova	27	19	83	79	99	88
Rwanda	129	117	132	135	70	71
Swaziland	..	..	..	..	..	..
Tajikistan	18	17	97	93	..	..
The former Yugoslav Republic of Macedonia	50	63	109	107	100	107
Turkmenistan	..	..	..	..	..	..
Uganda	60	73	114	117	..	..
Uzbekistan	117	124	95	98	..	..
Zambia	39	38	131	129	..	..
Zimbabwe	92	59	141	141	101	86

Source: UNCTAD.

Note: Covers 141 economies. The potential index is based on 12 economic and policy variables.

^a Three-year moving averages, using data for the three previous years, including the year in question.

Endnotes

¹ See also Transnational corporations and the infrastructure challenge. UNCTAD. *World Investment Report 2008*. New York and Geneva. 2008: 85 ff.

² For more information on least developed countries, see: UNCTAD. *The Least Developed Countries Report 2008*. New York and Geneva. 2008.

³ Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries. A/CONF.202/3.

⁴ UNCTAD. Accra Accord. Addressing the opportunities and challenges of globalization for development. UNCTAD XII Conference. Accra. 2008: para. 150.

⁵ UNCTAD. *FDI in Landlocked Developing Countries at a Glance*. UNCTAD/ITE/IIA/2003/5. New York and Geneva. 2003: 6.

⁶ Chowdhury AK and Erdenebileg S. *Geography against development*. New York. 2006: 7 ff.

⁷ Stone JI. Infrastructure Development in Landlocked and Transit Developing Countries: Foreign Aid, Private Investment and the Transport Cost Burden of Landlocked Developing Countries. UNCTAD/LDC/112. New York. 2001: 10.

⁸ Arvis J-F, Raballand G and Marteau J-F. The cost of being landlocked: Logistics costs and supply chain reality. World Bank Policy Research Paper 4258. 2007: 4.

⁹ UNCTAD. *World Investment Report 1998*. New York and Geneva. 1998: 188.

¹⁰ UNCTAD. *World Investment Report 1998*. New York and Geneva. 1998: 91.

¹¹ UNCTAD. *World Investment Report 2007*. New York and Geneva. 2007: 38–39.

¹² *Ibid.*: 39 ff.

¹³ By modifying certain provisions of the African Growth and Opportunity Act (AGOA), the AGOA Acceleration Act of 2004 (AGOA III of 12 July 2004) extends preferential access for imports from beneficiary sub-Saharan African countries until 30 September 2015.

¹⁴ Afghanistan, Armenia, Azerbaijan, Bolivia, Botswana, Burkina Faso, Burundi, Ethiopia, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Lesotho, Malawi, Mali, Mongolia, Nepal, the Niger, Paraguay, the Republic of Moldova, Rwanda, Swaziland, Tajikistan, the former Yugoslav Republic of Macedonia, Uganda, Uzbekistan, Zambia, Zimbabwe.

¹⁵ The Andean Community (ANDEAN), the Association of South-East Asian Nations (ASEAN), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), the Central European Free Trade Agreement (CEFTA), the Economic and Monetary Community of Central Africa (CEMAC), the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of Western African States (ECOWAS), the Economic Community of the Great Lakes Countries (ECGL), the Southern Common Market (MERCOSUR), the South Asian Association for Regional Cooperation (SAARC), the Southern African Development Community (SADC) and the West African Economic and Monetary Union (WAEMU).