

**GOVERNMENT OF MALAWI**

**INTEGRATED TRADE AND INDUSTRY POLICY**

**MINISTRY OF COMMERCE AND INDUSTRY**

**MARCH, 1998**

## LIST OF ABBREVIATIONS

ACB	:	Anti-Corruption Bureau
ACP	:	African, Caribbean and Pacific States
BUPAD	:	Bulk Procurement and Distribution of Raw Materials
COMESA	:	Common Market for Eastern and Southern Africa
DEVPOL	:	Statement of Development Policies 1987 - 1996
DHRMD	:	Department of Human Resources Management and Development
DCE	:	Department of Customs and Excise
DEA	:	Department of Environmental Affairs
DEMAT	:	Development of Malawian Enterprises Trust
DSC	:	Department of Statutory Corporations
DOT	:	Department of Taxes
EAM	:	Exporters Association of Malawi
EU	:	European Union
EPZ	:	Export Processing Zones
FDI	:	Foreign Direct Investment
GDP	:	Gross Domestic Product
GOM	:	Government of Malawi
GSP	:	Generalized System of Preferences
GSTP	:	Global System of Trade Preferences
GATS	:	General Agreement on Trade in Services
LC	:	Law Commission
MBS	:	Malawi Bureau of Standards
MCI	:	Ministry of Commerce and Industry
MCCI	:	Malawi Chamber of Commerce and Industry
MCTU	:	Malawi Congress of Trade Unions
MDC	:	Malawi Development Corporation
MoE	:	Ministry of Education
MoFA	:	Ministry of Foreign Affairs
MoI	:	Ministry of Information
MEPC	:	Malawi Export Promotion Council
MoEM	:	Ministry of Energy and Mining
MoHA	:	Ministry of Home Affairs
MoJ	:	Ministry of Justice
MoF	:	Ministry of Finance
MoLG	:	Ministry of Local Government
MIPA	:	Malawi Investment Promotion Agency
MIRTDC	:	Malawi Industrial Research and Technology Development Centre
MoLVT	:	Ministry of Labour and Vocational Training
MoNR	:	Ministry of Natural Resources
MoT	:	Ministry of Transport
MoW	:	Ministry of Works
MoWD	:	Ministry of Water Development
NEC	:	National Economic Council
NGOs	:	Non-Governmental Organisations
NRC	:	National Research Council

NSO	:	National Statistical Office
OPC	:	Office of the President & Cabinet
RBM	:	Reserve Bank of Malawi
RG	:	Registrar General
RTA	:	Road Transporters Association
SADC	:	Southern African Development Community
SEDP	:	Small Enterprise Development Programme
SMEs	:	Small and Medium Enterprises including Micro-Enterprises
UNDP	:	United Nations Development Programme
UNIDO	:	United Nations Industrial Development Organisation
UNIMA	:	University of Malawi
WTO	:	World Trade Organisation

## **FOREWORD**

The Government of Malawi has produced this Policy Statement with a view to creating a conducive business environment so that producers and suppliers of goods and services in Malawi are promoted and encouraged to be efficient and effective in their operations. The Policy Statement is also aimed at enabling the Ministry of Commerce and Industry to fulfil its mission statement of promoting, supporting and facilitating private sector enterprise efforts.

The Integrated Trade and Industry Policy has been produced by the Ministry of Commerce and Industry after a series of consultations with Government Ministries, parastatal organisations, the private sector and non-governmental organisations. I believe that the successful implementation of the policy will depend on the active participation of all stakeholders. I wish to thank the UNDP for providing financial and technical assistance which has enabled the successful completion of this policy document.

I also wish to thank all those who contributed to the preparation of this policy document.

**Alex C. Gomani**  
**Principal Secretary**  
**Ministry of Commerce and Industry**

The Government of Malawi sets forth an Integrated Trade and Industry Policy that will support and encourage the development of the private sector in the country. The policy embraces the interests and needs of enterprises at all levels which include small, medium and large scale so that they can become more competitive in their operations.

The policy goal of the Government is to create a conducive environment in which the performance of the private sector will be efficient and market oriented, improving its competitiveness domestically and internationally with a view to ensuring the sector's maximum contribution to the achievement of overall social-economic objectives. It is an integrated policy which will ensure that trade and industry policies complement each other.

This policy document reflects constraints affecting the Malawi's performance in the trade and industry sectors. The policy statement on each area is preceded by a brief background discussion of the situation which puts the relevant policy statement into perspective.

This policy document includes a programme of Implementation which outlines the targets and strategies for achieving the policy objectives and goals.

To promote, support, and facilitate private enterprise efforts in order to make Malawi a manufacturing based economy, capable of creating and sustaining a competitive advantage in domestic and international markets and to support effective participation of Malawians in the trade and industry sectors.

## TABLE OF CONTENTS

	<b>PAGE</b>
Foreword	i
Preface	ii
Mission Statement	iii
1. Introduction	1
2. Policies Relating to Both Trade and Industry Sectors	4
A. Development of an Information Base for Policy-making	4
B. Improved Quality of Infrastructure	
(i) Transportation	5
(ii) Utilities	6
(iii) Industrial Facilities	7
C. Human Resources Development	8
(i) Training	8
(ii) Labour Relations	9
D. Technology Capability Development	10
E. Trade and Industry Financing	11
F. Competition Policy	13
G. Investment Promotion	14
H. Private Sector Development	15
I. Collaboration with the Private Sector	16

3.	Policies Relating to the Trade Sector	17
	A. Foreign Trade	17
	(i) Export Development and Promotion	17
	(ii) Export Incentives	18
	(iii) Multilateral Trade Agreements	18
	(iv) Preferential Trade Agreements	19
	(v) Regional and Bi-lateral Trade Arrangements	20
	B. Domestic Trade	21
	(i) Formal Trade	21
	(ii) Informal Trade	21
4.	Policies Relating to the Industry Sector	
5.	Policies Relating to Small and Medium Enterprise (SME) Sector including Micro Enterprises	25
6.	Institutional Reform	26
7.	Programme of Implementation	27

## 1. INTRODUCTION

### General Economic Background

Since the early 1980's, the Government of Malawi has pursued a programme of economic liberalisation aimed at enhancing the competitiveness of Malawian products in the domestic and international markets and the competitiveness of domestic firms in export markets. The economic structure of the Malawi economy has remained relatively unchanged since the 1970's. Agriculture has remained the dominant sector at 43 per cent of the Gross Domestic Product (GDP), while the industrial sector's contribution to GDP is around 12 per cent and the distribution sector accounts for about 11 per cent.

Prior to 1996, the Malawi economy was controlled using such instruments as foreign exchange rationing, industrial licensing, price controls and official determination of exchange rates. This made it difficult for various sectors of the economy to perform efficiently.

In a bid to improve the economy and stimulate private sector growth, a number of measures have been undertaken to liberalise the economy. These include price decontrol, elimination of foreign exchange rationing and industrial licensing; reduction of corporate tax levels; introduction of market-based instruments for monetary policy management; import liberalisation; passing of the Investment Promotion Act and the introduction of the Export Processing Zone Programme.

As a landlocked country, Malawi faces high transport costs. Government recognizes this as one of the contributing factors making Malawi's locally produced goods uncompetitive in the domestic and international markets. Government seeks to increase efficiency and competition and lower the high costs in Malawi's transport sector. The opening of the Beira route, greater utilization of the Northern Transport Corridor, and the improvement in the rail route to Nacala will help to lower international transport costs.

Domestically, there are problems too. Internal transport costs are high and access is unreliable. Poor roads have led to increased vehicle maintenance costs which are passed on to consumers in the form of higher prices.

Output in the manufacturing sector increased by 3.2 per cent in 1994. This growth came mainly from agro-processing industries, particularly sugar and tobacco processing, fertilizer and chemical manufacture. However, most sub-sectors including food processing, bakery, textile and weaving experienced substantial drops in production due to foreign exchange constraints as well as stiff competition from imported manufactured goods.

Between 1994 and 1995, the overall growth in the manufacturing sector stood at 6.3 per cent. This growth was attributable mainly to sugar production and the chemicals and fertilizer sub-sectors. In 1996 the manufacturing sector declined by 5.6 per cent. This decline was a result of competition from cheap imports and high interest rates.

According to the index of industrial production as compiled by the National Statistical Office (NSO), between 1993 and 1994 total goods manufactured for the domestic market declined by 6 per cent with food and beverages and tobacco registering a 7 per cent drop while clothing, footwear and textiles registered a 12 per cent drop. Over the same period, export goods declined by 11 per cent while general industrial production fell by 5 per cent.

Between the period 1994 and 1995, total goods manufactured for the domestic market further declined by 2 per cent. However, food, beverages and tobacco rose by 4 per cent while clothing, footwear and textiles declined by 19 per cent. More encouraging, export goods rose by an impressive 12 per cent over the same period while general industrial production rose slightly by 2 per cent.

In terms of principal exports, the agricultural sector is the major contributor to Malawi's exports, accounting for 89.5 per cent of total exports in 1993, 87.6 per cent in 1995 and 87.1 in 1996. Tobacco exports accounted for 69.2 per cent, 65.3 per cent and 64.2 of total exports during the years in question; followed by tea exports which accounted for 11.6 per cent, 6.9 per cent, and 6.1 per cent of total, respectively.

Malawi's principal imports include fertilizers, fuels, vehicles, spare parts, chemicals, capital equipment and raw materials used in manufacturing and a variety of consumer products.

### **Past Policy Objectives for the Trade and Industry Sectors**

Past government policies and strategies for the development of the trade and industry sectors were laid down in the Government's Statement of Development Policies (DEVPOL).

DEVPOL sought to: (a) support a liberal system of private enterprises as the basis of commercial and industrial activity, (b) promote rather than regulate business activity, (c) minimise regulation, (d) limit parastatal involvement to areas of specific national significance, (e) promote growth, efficiency, stability and equity, (f) encourage foreign investment activity, (g) avoid the concentration of manufacturing and commercial activity in a few hands, (h) emphasize support for small scale enterprises both formal and informal, and (k) emphasize exports so as to increase domestic employment and generate foreign exchange.

## **Recent Policy Objectives for the Trade and Industry Sectors**

In the light of the assessment of the trade and industry sectors, Government has embraced specific objectives of trade and industry policies as follows:-

### **Policy Objectives Guiding Trade**

- (a) Ensuring the supply of essential goods and services throughout the country through efficient distribution and import procurement.
- (b) Consolidation of existing and diversification of export markets, to generate foreign exchange.
- (c) Diversification of export products.
- (d) Development of a conducive trading environment.
- (e) Increasing participation of Malawians in trading activities.

### **Policy Objectives Guiding Industrial Development**

- (a) The development of export oriented industry aimed both at increasing the volume and diversifying the range of manufactured exports.
- (b) Broadening the industrial base.
- (c) Development of Small and Medium Scale Industries.
- (d) Development of agro-industries.
- (e) Development of science and technology to enhance industrial competitiveness.
- (f) Development of a support structure for industrial growth.

## **2. POLICIES RELATING TO BOTH TRADE AND INDUSTRY SECTORS**

### **A. Development of an Information Base for Policy Making**

#### **Background**

Government recognizes that a comprehensive up-to-date trade and industry information base continuously updated, is a fundamental service requirement of the trade and industry sectors. In 1990, the Ministry of Commerce and Industry initiated work on the establishment of a data base on the industrial sector based on systematic processing of information from various sources with links to the National Statistical Office (NSO).

Government is determined to improve the quality and timeliness of data published by the NSO. To this end, a National Statistical Committee has been set up to review and coordinate the compilation and publication of statistics (including trade and industrial statistics) to meet national requirements.

In addition, a Statistical Unit has been set up within the Ministry of Commerce and Industry. This Unit will be collaborating with NSO, other public and private sector organizations which are involved in the trade and industry sectors in Malawi and with regional and international data bases such as those of the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), the United Nations Industrial Development Organization (UNIDO), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC) and the World Trade Organization (WTO).

#### **STATEMENTS OF POLICY**

##### **GOVERNMENT SHALL**

1. accord priority to the creation of a trade and industrial information infrastructure in Malawi;
2. ensure the existence of an efficient trade and industry data base in the Ministry of Commerce and Industry; and
3. ensure that relevant trade and industrial information is disseminated to users.

## **B Improved Quality of Infrastructure**

### **Background**

Infrastructure encompasses transportation services, communications, utilities (such as electricity, water, and sewerage: facilities (such as industrial parks, industrial estates, industrial shells; and warehousing); and cold storage facilities located at strategic points.

#### **(I) Transportation**

##### **Rail services**

Malawi Railways (1994) Limited was formed as a result of the restructuring of the old Malawi Railways, a statutory corporation, with a view to achieving efficiency and effectiveness of operations and to take on more traffic, both domestic and international. The Malawi Government recognises the need for Malawi Railways (1994) Limited to modernise its rolling stocks and to improve the technical and management skills of its staff.

##### **Lake Services**

Lake services, originally provided by the old Malawi Railways, are now under the responsibility of the Malawi Lake Services (MLS). The Malawi Lake Services handles both cargo and passenger services although the latter service is predominant. The Malawi Government recognises the virtual inaccessibility by vessels of the ports at Chipoka and Monkey Bay due to the low water level on the Lake. The Malawi Lake Services also extends to Mbamba Bay in Tanzania.

##### **The Road Services**

The road services have undergone significant improvement since independence in 1964 in terms of the total length of bituminized and all weather road network connecting the major centres of economic activity. Most roads in Malawi were designed for less traffic and lower axle load capacity. However, increased traffic and overloading have resulted in the rapid deterioration of the roads. Government has been unable to adequately maintain these roads. The resultant damage to vehicles increases vehicle operating costs which are reflected in high prices.

##### **Air Services**

The demand for air services is increasing despite the high costs of exporting perishable goods to Europe or America. With the Export Processing Zones and the proposed Export Production Villages, the demand for air freight of exports is expected to increase significantly.

## STATEMENTS OF POLICY GOVERNMENT SHALL

1. use its best endeavours, in co-operation with its neighbours and development partners, to rehabilitate all transport routes;
2. implement a national policy on transportation;
3. review legislation relating to transport services; and
4. encourage private sector participation in the provision and maintenance of infrastructure.

### (ii) **Utilities**

#### **Telecommunications**

Telecommunications and postal services play an important role in both domestic and international trade. The introduction of cellular phones and converting the Department of Posts and Telecommunications into a statutory body, were aimed at improving the telecommunications system which is necessary for improved domestic and international trade. Unfortunately, these government initiatives contributed little to the efficiency of the telecommunications system. Government recognises the need to promote competition as a way of increasing efficiency of service delivery.

#### **Electricity**

There is inadequate access to electricity and most enterprises face high installation costs. Government advocates private sector participation in the provision of electricity.

#### **Water**

Government is conscious of the adverse effects of unreliable water supply on industries. Under the National Water Development Programme, government has decentralized the tapping and distribution of water by establishing three commercial oriented regional water boards. It is expected that when fully operational, these water boards would meet the growing demand for water.

#### **Sewerage**

Sewerage systems in urban areas are in urgent need of attention. Currently, there are few lines of centralized sewerage. Most industries rely on localized systems whose contents are collected regularly for treatment elsewhere within the cities. Others use dedicated oxidation pond facilities. Both treatment systems need regular attention to keep them

operating. The mechanical plants should be kept in good state of repair and some need rehabilitation or modernization of their technology while the oxidation ponds only require clearing of grass overgrowth on the edges to avoid oxygen depletion in the ponds.

## STATEMENTS OF POLICY

### GOVERNMENT SHALL

1. encourage private sector participation in telecommunications;
2. encourage private sector participation in the provision of electricity;
3. ensure adequate supply of water; and
4. encourage local authorities to improve the sewerage systems.

### **(iii) Industrial Facilities**

#### **Background**

Government is aware that the provision of industrial parks and estates and factory shells is a necessary component of any industrialization programme. Government advocates the establishment of more of these facilities.

Government is committed to promoting the export of horticultural products. In this regard, the establishment of warehousing and cold storage facilities at international airports is vital.

## STATEMENTS OF POLICY

### GOVERNMENT SHALL

1. accelerate its efforts to offer fully serviced industrial sites at affordable rentals;
2. provide, in collaboration with the private sector, warehousing and cold storage facilities at international airports to facilitate export of perishables; and
3. provide more factory shells with private sector involvement.

### **C. Human Resource Development**

## **Background**

Government recognizes that human resource development is a prerequisite to industrial, commercial and overall socio-economic development. Therefore, the absorptive capacity of Malawi to assimilate, adapt and appropriate new technologies, will largely depend upon the quality of training and skills acquired by human resources at managerial, technical/supervisory and shop floor levels.

### **(I) Training**

On aggregate, there is a modest increase of graduates from the University of Malawi and abroad, the Malawi College of Accountancy and the Malawi Institute of Management to provide personnel with professional and managerial skills in the country. At the lower level is the Apprenticeship Training Scheme under the supervision of the Ministry of Labour and Vocational Training which turns out technicians and serve industry. In addition to training programmes undertaken by Government, private sector employers themselves have a responsibility, in their own self interest, to provide training opportunities for their employees and to maintain performance standards. In spite of the increasing supply, the situation on the ground still shows a growing shortage of appropriately qualified personnel to adequately serve industry and commerce. Reasons accounting for the shortage include: the mismatch between required skills and those supplied; low levels of investment in education and training; inability of employers to recruit and retain specialised skilled personnel which is marketable worldwide; and the AIDS pandemic.

Government is convinced that success in industrial and commercial development needs a sustained programme of investment in developing and updating skills and capabilities. Government recognizes that such investment is expensive. Therefore, it is of the view that incentives already provided to employers in the form of tax relief to encourage them to make investments in training should be increased.

Moreover, given the high cost of training and the limited financial resources available, Government advocates that national programmes for human resource development should take into account the needs of those industries.

(ii) **Labour Relations**

It is recognized that harmonious labour relations at both national and workplace levels contribute positively to labour productivity and that fair labour practices are critical to ensuring a productive labour force.

To this end, the Malawi Constitution reinforces the provisions of labour rights, the right to organize trade unions and collective bargaining. In addition, there is a Labour Relations Act to promote sound labour relations through the protection of freedom of association, the encouragement of effective collective bargaining and the promotion of orderly and expeditious dispute settlement.

**STATEMENTS OF POLICY**

**GOVERNMENT SHALL**

1. accord priority to human resource development with specific reference to the needs of trade and industry sectors;
2. encourage employers to train their employees; and
3. promote harmonious labour relations.

**D. Technology Capability Development**

## Background

Industry in Malawi continues to utilize obsolete technologies. The use of such technologies in production, distribution, and auxiliary systems has contributed to poor performance and output. In addition, capacity utilization has fallen to low levels, mainly due to lack of spare parts, poor maintenance and frequent down time.

It is important to address the need for technological capacity development to ensure a competitive edge for Malawi's products. Without an enhanced technological base, Malawi's prospects of attaining competitiveness in domestic, subregional, regional and international markets will remain slim.

Government recognizes the importance of adherence to defined product standards and/or product specifications, and the important role that technology development plays through industrial research, product development and quality improvement.

### STATEMENTS OF POLICY

#### GOVERNMENT SHALL

1. accord priority to the implementation of the National Science and Technology Policy;
2. establish a National Productivity Centre;
3. encourage industrial research and technology development;
4. strengthen institutional capacity to support industrial research and technological development as well as standardisation and quality assurance;
5. establish, in partnership with the private sector, a Technology Development Fund; and
6. encourage the establishment of a Design Centre.

## **E. Trade and Industry Financing**

### **Background**

Government acknowledges that the country's financial sector is relatively under developed. Partly as a result of this, the cost of and access to both working capital and long term loans is a critical constraint to the growth of the trade and industry sectors.

Government recognizes that greater national efforts are required to increase domestic resource mobilization and in particular the level of savings. The existing institutional framework to facilitate these developments is weak. A stock exchange on which equity funds can be raised is still in its infancy. Merchant banks; venture capital; investment funds and unit trusts have not yet materialized. As a consequence of this, sources of investment funds are limited. The major commercial banks concentrate on providing short term credit, while the major development finance institutions cater for the upper end of the market. In the area of foreign trade, there is no specialised financing facility for exports to which exporters have access, such as an Export-Import Bank. Pre-and post- shipment financing and an export guarantee scheme are yet to be established.

Reforms in the financial sector will be directed at increasing competition by continuing to encourage new entrants. In addition, bank and non bank financial institutions are being encouraged to widen the range of financial services. The capital market is expected to develop faster with the start of operations of the Malawi Stock Exchange, the planned establishment of a Unit Trust and the privatisation of state-owned enterprises.

### **Regional and International Financial Institutions**

Government recognises the important role of regional financial institutions as sources of investment and export finance.

However, there is limited knowledge in the business community in Malawi about the facilities which are available from these sources, nor of procedures for accessing them and the related terms and conditions. Government will encourage the competent authorities to intensify their efforts to ensure that this information reaches its target beneficiaries.

### **The SME Sector**

Government acknowledges that there are grounds for treating SMEs as a special case, and within prudential limits, for introducing a regime of assistance for their benefit. It is generally accepted that among their disabilities none is more constraining than their lack of adequate equity capital and collateral for business startups. This factor, added to the undeveloped managerial capability of SMEs, constitutes a barrier to these enterprises in obtaining commercial financing.

## STATEMENTS OF POLICY

### GOVERNMENT SHALL

1. continue to give priority to reform the financial sector; and
2. set-up export financing facilities.

## **F. Competition Policy**

## **Background**

One of Government=s functions is to create an enabling environment in which enterprises can flourish. The absence of a competition policy in Malawi has led to some sectors of the business community in the country to engage in restrictive business and unfair trading practices. In this regard, Government has to put in place clear policies and legislation that foster a competitive environment for business enterprises.

The broad policy objective of the competition policy is to promote economic efficiency and protect consumer interests.

### **STATEMENT OF POLICY**

#### **GOVERNMENT SHALL**

encourage competition and fair trading practices.

## **G. Investment Promotion**

### **Background**

The Government of Malawi recognises the need to encourage and assist private investment in the country. The Government encourages the private sector to assume a leading role in economic development. Its efforts will mainly be to facilitate rather than regulate private investment. The Government is committed to creating a good investment environment by pursuing prudent economic policies such as maintaining a realistic and stable exchange rate; continuing to deregulate the economy; and creating new investment opportunities through privatisation and divestiture of state owned companies.

The Government enacted an Investment Promotion Act in 1991, in order to promote, attract, encourage and facilitate both local and foreign investment in the country. The Government realises that investment promotion in a country requires an enabling environment which, among other things, encompasses the following: political stability, stable macro economic atmosphere, supportive infrastructure, competitive incentives, streamlined approval process and security.

The Government is aware that there are still significant and indirect regulatory obstacles to entry and competition in the private sector.

### **STATEMENTS OF POLICY**

#### **GOVERNMENT SHALL**

1. encourage and facilitate both local and foreign investment;
2. review existing policies, legislation and practices;
3. ensure that the public sector is geared towards the promotion and marketing of Malawi as a destination for private investment ; and
4. ensure the existence of a stable and conducive investment climate.

## **H. Private Sector Development**

### **Background**

Government recognises that one of its most important functions is to create an enabling and conducive environment in which enterprises would develop and flourish. Within this framework, Government has to put in place clear policies and legislation that foster private sector development. It is recognised and acknowledged that the private sector should act as the engine of growth of the economy. In this regard, Government has liberalised the economy and embarked on a privatisation programme.

Government is aware that several constraints hinder the development of the private sector. These include the following: weak structure of the private sector, non-competitive environment, dependence on a narrow product base, unstable macroeconomic environment, small domestic market, low productivity, legal and regulatory constraints and financial and infrastructure constraints.

## STATEMENTS OF POLICY

### GOVERNMENT SHALL

1. ensure the existence of an enabling environment for Private Sector Development; and
2. support private sector organisations.

## **I. Collaboration with the private sector**

### **Background**

In the context of formulating the integrated trade and industry policy and its subsequent implementation, it is essential to have an institutionalised collaborative mechanism. Government recognises the importance of an interactive process of policy formulation and implementation, whose distinguishing features include:-

- (a) consensus building in a framework of close collaboration between the government and the private sector (business);
- (b) intensive formalized dialogue in a continuous, iterative process;
- (c) bottom to top structure, with consensus building originating from sub-sectoral (or equivalent) groups which have linked interests and relationships, culminating at the national level; and
- (d) the design, implementation and monitoring of strategies for all sub-sectors and agreement on performance targets.

Government is aware that to facilitate the consultative process, a secretariat will be needed to provide technical support services.

## STATEMENT OF POLICY

### GOVERNMENT SHALL

institutionalise an interactive consultative process for the formulation and implementation of trade and industry policies.

### **3. POLICIES RELATING TO THE TRADE SECTOR**

#### **A. Foreign Trade**

##### **(i) Export Development and Promotion**

###### **Background**

Tobacco, tea and sugar account for over 80% of Malawi's total foreign exchange earnings. Manufactured products account for about 10% of total export earnings. There is a limit to continued reliance on agricultural exports if the growth of the economy is to be export-led. There should, therefore, be a well thought out programme of product development and adaptation. This should include the manufacture of products that utilise local resources, and make efficient use of imported raw materials.

It is acknowledged that countries which have become successful exporters of goods and services have not only built up capacity to produce exportable goods and services but have also put in place a supportive promotional and institutional framework. In addition to actions being taken on the supply side, Malawi has to take necessary steps to make its export promotion policies and programmes more effective and dynamic.

In order to increase foreign exchange earning capacity of the country through stimulation of both traditional and non-traditional exports, the formulation and implementation of a well-funded, co-ordinated and integrated programme of product and export development and promotion is vital.

Government is aware that an exporters first strategy is used by successful exporting countries to encourage and facilitate exports. This is done by targeting enterprises and giving them preferential treatment to their requirements including credit, purchase of raw materials and other inputs as well as final export products.

Exporting of goods from Malawi is constrained by complicated documentation requirements. Several forms and documents have to be completed and approved before exports are allowed to leave the country, depending on the final destination.

Government emphasises product diversification and export market development as a means of enhancing export earnings.

###### **STATEMENTS OF POLICY**

###### **GOVERNMENT SHALL**

1. emphasize export market development and product diversification;

2. introduce an 'exporters first' strategy to target enterprises with capacity of exporting goods and services; and
3. simplify and harmonize trade documents and procedures.

**(ii) Export Incentives**

**Background**

The package of incentives for production and export of Malawi products currently offered does not compare favourably with those offered by other countries in the world. Government has undertaken the implementation of the Export Processing Zone Programme in an effort to diversify into export of manufactured products. However, experience of other countries is that the success of this initiative depends on its efficient administration.

**STATEMENTS OF POLICY**

**GOVERNMENT SHALL**

1. offer a competitive package of incentives in order to promote more export - oriented investments; and
2. ensure efficient administration of the EPZ programme for maximum benefit to the country.

**(iii) Multilateral Trade Agreements.**

**Background**

The conclusion of the Uruguay Round (UR) of the Multilateral Trade Negotiations has created more competition for manufactured products from developing countries. It has also eroded the margin of preferences offered to developing countries under some existing schemes including those under the Lome Convention and the Generalized System of Preferences (GSP).

Government recognises that developing countries, including Malawi, can make use of the special clauses of the Final Act of the Uruguay Round providing differential and more favourable treatment and implement and benefit from the commitments undertaken.

Government recognises the need to link trade liberalisation to a process of viable industrial and export development by utilising multi-lateral trade concessions and preferential market access.

## STATEMENTS OF POLICY

### GOVERNMENT SHALL

1. implement WTO Agreements; and
2. ensure the continuous dissemination of information regarding WTO Agreements, Lome Convention and others to the business community.

#### **(iv) Preferential Trade Arrangements**

There are a number of Preferential Trade Arrangements maintained by developed countries which offer non-reciprocal preferential market access to a wide range of products from developing countries. These include the Lome Convention and the Generalized System of Preferences (GSP). In addition, the Global System of Trade Preferences (GSTP) offers opportunities under the South-South Co-operation.

As trade liberalisation is a dynamic process, it is essential for Government to keep abreast of any changes and advise the business community of them, including any further agreements.

## STATEMENTS OF POLICY

### GOVERNMENT SHALL

1. ensure the dissemination of information to the business community on existing preferential trade arrangements; and
2. access to non - reciprocal trade preferences offered to developing countries.

## **(v) Regional and Bilateral Trade Arrangements**

Malawi is a member of both the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). The objectives of COMESA and SADC, include among others, to facilitate, increase and promote intra-regional trade through the gradual reduction and eventual elimination of tariff and non-tariff barriers. They also aim at promoting cross border and foreign investment and to enhance the economic development, diversification and industrialisation of the region. Malawi also has bilateral trade arrangements with South Africa and Zimbabwe and maintains a Customs Agreement with Botswana.

### STATEMENTS OF POLICY

#### GOVERNMENT SHALL

1. ensure the dissemination of information to the business community on Regional and Bilateral Trade agreements; and
2. ensure reciprocity in the implementation of regional and bilateral trade arrangements.

## **B. Domestic Trade**

### **Background**

Domestic trade is conducted in the formal and informal sub-sectors by micro, small, medium and large enterprises dealing in imported and locally manufactured goods and agricultural produce. The distribution of consumer products is dominated by large-scale trading enterprises. Recently, there has been increased participation by Malawian traders in the distribution of goods and services.

#### **(a) Formal Trade**

Domestic trade encompasses trade in goods services which include tourism, financial and recreational services.

Government is aware that one of the obstacles to efficient distribution of goods and services is the poor quality of infrastructure. Many parts of the rural areas are inaccessible, making the distribution of goods and services difficult.

Government recognizes that the policy change towards trade liberalization has increased competition in the domestic market between locally produced and those imported.

Furthermore, the issue of dumping has assumed great importance. Although anti-dumping legislation is in place, it is yet to be applied.

Consumer cooperatives can play a significant role in domestic trade. Government has revised the Cooperative Societies Act as one way of stimulating domestic production and trade.

It has also liberalised the growing and purchasing of tobacco and other special crops with a view to enhancing incomes of small holder farmers and intermediate buyers.

The centralisation of the business names registration is a constraint to SMEs who would like to register their businesses.

#### **(b) Informal Trade**

Government recognises the importance of the informal sector in domestic trade. The growth of this sector has made a significant impact on the domestic market in terms of providing goods at affordable prices. However, this has eroded the market for locally manufactured goods by making them uncompetitive.

## STATEMENTS OF POLICY

### GOVERNMENT SHALL

1. take remedial measures such as countervailing duties and anti-dumping measures and safeguards to protect domestic manufacturers and traders;
2. ensure decentralization of registration of business names under the Business Names Registration Act; and
- 3 . ensure flexibility in the period of validity of business licences.

## 4. POLICIES RELATING TO THE INDUSTRY SECTOR

### Background

The industry sector in this context refers to the manufacturing sector of the economy. This is characterised by the following:-

- (a) a narrow industrial base, dominated by agro-industries and contributing about 12 per cent to GDP;
- (b) limited diversification;
- (c) reliance on imported inputs of raw materials and intermediates;
- (d) relatively under-developed inter-and intra-industry linkages;
- (e) prevalent use of obsolete technologies;
- (f) production that is mainly focused on the domestic market; and
- (g) high levels of ownership concentration.

Government recognises that significant transformation of the sector is vital. In order to achieve this, it will be necessary to promote and stimulate a change process which will make the sector:-

- (a) exhibit a diversified structure of production;
- (b) undertake processing of more of the natural resources with which Malawi is endowed; and
- (c) become export-oriented.

Government recognizes that industrialization is a long term process of transformation. Success in meeting this challenge will depend on both the internal and external environment.

As regards the foreign/international environment, Government recognises that some of the significant developments with which Malawi must contend, are:-

- (a) the growing trend towards a global economy leading to competition;
- (b) worsening terms of trade in respect of commodity exports;
- (c) growing limitations on reliance on cheap labour-based export products;
- (d) intensified competition for international financial flows and Foreign Direct Investment (FDI) ; and
- (e) the regional and subregional trading arrangements.

Taking into account the above factors, Government=s goals for the industry sector in the medium and long term are:

- (a) to optimize the exploitation of domestic natural resources;
- (b) to strengthen backward and forward linkages within the manufacturing sector and between the sector and rest of the economy;

- (c) to ensure that industries are competitive in the domestic and international markets;
- (d) to raise levels of technological capabilities;
- (e) to create new employment opportunities to absorb the rapidly growing labour force;
- (f) to strengthen the MSE sector;
- (g) to encourage greater Malawian involvement in industry; and
- (h) to substantially increase the contribution of manufacturing to GDP.

## STATEMENTS OF POLICY

### GOVERNMENT SHALL

1. accord priority to industrial development;
2. intensify investment promotion efforts to attract an increased flow of capital into the manufacturing sector from domestic and foreign sources;
3. promote strategic industrial sub-sectors and product groups on the basis of their potential to maximize economic and social benefits;
4. promote industrial linkages within the manufacturing sector and between the sector and the rest of the economy;
5. optimise the exploitation of natural resources;
6. promote export-oriented industrialisation; and
7. ensure environmentally sustainable industrial development.

## 5. POLICIES RELATING TO SMALL AND MEDIUM ENTERPRISES (SME) SECTOR

### Background

Government recognizes the important role of small and medium enterprises in the economic development of the country. This is manifest in a number of efforts that Government has made towards the development of this sector. These efforts include:-

- (a) the creation and support of public and semi-public SME support institutions;
- (b) encouragement and facilitation of the establishment of NGOs dealing directly or indirectly with SMEs;
- (c) commissioning, with donor assistance, a number of surveys of the SME sector;
- (d) establishment and operationalisation of Government Preferential Purchase Programme;
- (e) the launching of the Small Enterprise Development Programme (SEDP) of the GOM/UNDP 5th Country Programme in 1993; and
- (f) the establishment of the Small and Medium Enterprises Fund.

Despite these notable efforts the sector remains underdeveloped. The macro-economic and policy environment are still quite unfavorable for SMEs. However, a policy specifically designed for the SMEs sector, has been formulated to address the following:-

- (a) credit;
- (b) raw materials and inputs;
- (c) markets;
- (d) entrepreneurship and management skills;
- (e) infrastructure;
- (f) fiscal policies;
- (g) technology; and
- (h) production costs.

### STATEMENT OF POLICY

#### GOVERNMENT SHALL

ensure that the SME policy is implemented.

## **6. Institutional Reform**

### **Background**

In the light of the economic liberalisation programme, the role of Government in the commerce and industry sectors is now that of promoter, facilitator and coordinator. The Ministry of Commerce and Industry is the coordinating agency for Government policies and programmes for these sectors.

Government recognises that the capacities and capabilities of the Ministry of Commerce and Industry and its support institutions must be strengthened in order to take on these tasks.

### STATEMENTS OF POLICY

#### GOVERNMENT SHALL

1. strengthen the Ministry of Commerce and Industry; and
2. review the functions and effectiveness of support institutions.

7.

## PROGRAMME OF IMPLEMENTATION

Government has developed a programme of implementation of the policy document.

Government assigns priorities to the policy objectives and the implementation arrangements as follows:-

- . ongoing implementation is designated by the symbol "**O**";
- . immediate implementation is designated by the symbol "**I**";
- . short term implementation is designated by the symbol "**S**"; and
- . implementation within the medium term is designated by the symbol "**M**".

In respect of the measures required for implementation, Government has identified ministries and organisations which have direct or shared responsibility for initiating a particular action. In each case the lead Ministry or organization has been mentioned first and is highlighted in bold.