

**TRADE POLICY REVIEW**

**MALAWI**

**Report by the Government**

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Malawi is attached.

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Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Malawi.



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## **I. INTRODUCTION**

1. Malawi is a landlocked, highly indebted, least developed country situated in Central Africa, surrounded by Mozambique in the southeast, Tanzania in the northeast and Zambia in the west. Malawi comprises of an area of almost 118 500 square kilometres out of which about 24,420 square kilometres is covered by Lake Malawi. According to a 1998 population census, the country has an estimated population of about 10 million with about 75 per cent living in the rural areas. It has a GDP per capita of US\$200 (1999). 65.3 per cent of the population lives below the poverty line and has severe health problems. The HIV/AIDS pandemic is arguably the biggest challenge to Malawi's development plans.

2. The country became independent in 1964 from the British rule. For much of the 30 years, Malawi was under a one-party rule. In early nineties, multiparty democracy was introduced and the elections of 1994 ushered in the current government of the United Democratic Front (UDF).

3. In the first fifteen years after independence in 1964, Malawi's Gross Domestic Product (GDP) grew at an average annual rate of nearly 6 per cent. But the fruits of this growth were poorly distributed, and growth itself was based on estate-owned agriculture and large public and private conglomerates protected by pervasive barriers to entry. Since then government has been working towards attaining similar growth rates and improved distribution of this growth.

4. Malawi's economy remains very fragile with a narrow base, lacking in key social services and infrastructure. The size of its market and its landlockedness pose a particular challenge to meeting the needs of the private sector for high quality infrastructure at the lowest possible cost. It is an economy that is vulnerable to various shocks, making it challenging for the country to attain a sustainable economic growth.

5. Agriculture is the primary economic activity of the country and it contributes nearly 36 to 39 per cent to Gross Domestic Product and over 90 per cent of export earnings. It employs about 80 per cent of the labour force. This dependence on agricultural commodities also makes the country vulnerable to the frequent fluctuations in world commodity prices. The country's staple crop is maize, while tobacco is, by far, Malawi's largest export crop, followed by tea, sugar, coffee and cotton. Tobacco exports mainly go to the USA and the European Union. Its heavy dependence on tobacco and the growing anti-smoking lobby in the U.S., EU and elsewhere in the world pose an additional risk and uncertainty to the sustenance of the economy.

6. The economic performance of Malawi has remained quite unsatisfactory in the past five years. Relative stability and growth have been experienced but only to limited extent. The major reasons for this are numerous. They include high levels of inflation, fiscal imbalances, external shocks, depreciation of the Kwacha, high interest rates and poor tobacco prices offered at the auction floors.

7. In facing this challenge, Malawi has been undertaking a number of policy reforms: Among others, these include the 'Cash budget system' preventing Government Ministries from spending more than they were allocated in the national budget as one way of controlling expenditures to reduce budget deficit; the privatisation programme and establishing a sound institutional mechanism to manage the programme; introducing the Medium Term Expenditure Framework; and the preparation of the Poverty Reduction Strategy Paper (PRSP) to facilitate the attainment of the appropriate conditions for the poor to gain and improve their social welfare status; and trade liberalisation programme to encourage diversification of both imports and exports.

8. Malawi has, since the early 1980, implemented the IMF and World Bank-supported Structural Adjustment Programmes (SAPs). The major thrust of these programmes has been the liberalisation of the economy to create an enabling environment for both domestic and foreign investments. In recent budgets, for example, maximum tariffs have successively been reduced to the current level of 25 per cent. Duties on capital goods have been brought down to 0 per cent. However, this liberalisation process has failed to bring about a marked change in either the share of GDP or in the structure of Malawi's trade.

9. Malawi's economic development prospects will depend on its ability to adjust. In this regard, there will be need for increased support or assistance from the international community so as to meet adjustment costs, including providing unrestricted market access to products of export interest to Malawi. The country has, through a widely consultative process, developed a national Vision which provides that 'by the year 2020, Malawi, as a God-fearing nation, will be secure, democratically mature, environmentally sustainable, self reliant with equal opportunities for and active participation by all, having social services, vibrant cultural and religious values and a technologically driven middle-income economy.' The challenge is to consolidate the Vision and other policy initiatives into a development framework with clear strategies and priorities for short and medium term attention.

## **II. ECONOMIC ENVIRONMENT (1994 – 2000)**

### **(1) MACROECONOMIC POLICIES**

10. For the past six (6) years, macro economic performance has been characterised by low economic growth and instability. In 1994 there was a reduction in real GDP of 10.2 per cent below the 1993 level, although in 1995 real growth of 9.6 per cent was realised. However, growth slowed down substantially since 1995 to 2.1 per cent in 2000. Growth in GDP has increased marginally from 2.1 per cent in 2000 to 2.3 per cent in 2001. Several factors explain this slow down. First, the smallholder sub-sector experienced drought in 1996/97 growing season, an effect compounded by high input costs, notably fertilizer following the removal of subsidies. In 1998, the economic slow down was a reflection of macroeconomic imbalances; there was a huge devaluation in 1998 which set in motion inflationary pressures and resulted in reduced economic activity in real terms.

11. Average annual inflation in 1995 stood at 83.1 per cent and reduced to 37.6 per cent in 1996 and to 9.1 per cent in 1997, but increased again to 29.8 per cent in 1998. In 2000 inflation averaged at 29.5 per cent, reflecting a huge decline from the high 1999 inflation rate of 44.9 per cent. The 29.5 per cent rate is attributed to general increases in the prices of food products; particularly maize which constitutes 55.5 per cent of the consumer price basket.

12. Prior to 1994, the Kwacha was fixed to a basket of currencies comprising the currencies of Malawi's major trading partners. In February 1994, the Kwacha was floated in a bid to improve the economic situation. By the end of 1997, the Kwacha had depreciated by 96.7 per cent against the U.S. dollar. Following this huge depreciation, the Kwacha showed signs of stabilisation for the most part of 1995 and 1996, with the average nominal official exchange rate reported at MK 15.3 to the U.S. dollar. There was a slight depreciation during the last quarter of 1997, as a result the annual rate for 1997 left the Kwacha at MK 16.6 per U.S. dollar. By the end of 1997, there were already symptoms of inflationary pressure implying that the on-going exchange rate was overvalued. By August 1998, the Kwacha depreciated and the official rate went up to MK 31.1, and later to MK 44.3 to the U.S. dollar in 1999 and up to MK 59.8 to a U.S. dollar in 2000.

13. The outstanding debt for Malawi increased at a rapid rate from US\$1.23 billion in 1992 to US\$2.6 billion by 1999. As a proportion of GDP this represented an increase from 93.2 per cent in

1992 to 155.1 per cent in 1998. The external borrowing was necessitated by the need to support economic development thereby reducing poverty. Malawi qualified to benefit from the HIPC Initiative in December 2000. This could translate into an annual debt service reduction of around US\$40 – US\$50 million over the 2000 - 2020 period, equivalent to around 1.3 per cent of GDP for the 2000-09 period and 0.7 per cent of GDP for the 2010-20 period.

14. To reduce budget deficit, Government undertook policy measures to enhance revenue collection and control expenditure levels. These include institutional reform of the civil service, the establishment of an independent authority for revenue collection called the Malawi Revenue Authority; the establishment of the privatisation Commission in 1996 to privatise public enterprises. At the end of October 2001, a total of forty enterprises were privatised; the introduction of a cash budget; and the introduction of the tax reform aimed at broadening the tax base.

15. The Government is also developing a Poverty Reduction Strategy Paper to create conditions for the poor to generate their own income. In order to enhance the role of the private sector and strengthen Government's infrastructure maintenance, the Government introduced a number of institutional reforms such as the establishment of the National Road Authority (NRA), the National Electricity Council (NECO) and the Malawi Communication Regulatory Authority (MACRA). These institutions were created to enhance competition in areas that were public sector dominated.

16. In line with the principles of a market-based economy, the Government policy on investment is to provide an enabling environment for the facilitation of growth in private sector investment so as to ensure the sector's lead role in economic development. As part of the facilitation process, the Government enacted the Capital Market Development Act (1990) and the Investment Promotion Act (1991), including a published statement of investment policies which, among other things, ensures the freedom of investment, ownership and protection of investment. Government has streamlined the investment approval process by granting the Malawi Investment Promotion Agency the status of a one-stop investment centre. Qualifying investments also enjoy access to various fiscal incentives.

17. The Government is committed to the goals of achieving sustainable economic growth and poverty reduction, stable prices, viable balance of payments position and creation of employment. In this regard, the Government is committed to reducing fiscal imbalances in order to avoid high rates of inflation, promotion of export growth for generation of foreign exchange, and broadening the sources of economic growth which is projected at 4 per cent in 2002 and 5 per cent by 2004. Malawi aims to attain a desired per capita income of at least US\$500 by the year 2010. The Government is embarking on policies and measures to address supply side constraints in order to facilitate growth in trade and investment. Reliable and efficient economic infrastructure (transport, power supply, communications, etc) is critical in this endeavour.

## **(2) SECTORAL PERFORMANCE**

### *Agriculture*

18. The agricultural sector was the main source of economic growth during 1994-2000 and remains the main sector in which the poor play a significant role. The agricultural sector contributes 36 to 39 per cent of GDP of which the smallholder sector contributes 27 per cent. In addition, agriculture accounts for 80 per cent of total employment and supplies more than 65 per cent of the manufacturing sector's raw material requirements. It also accounts for over 90 per cent of export earnings. Therefore, agriculture remains the major source of economic growth for the foreseeable future.

19. The growth in the economy in 1997 and 1998 was a result of good generally agricultural performance. In 1997, growth was driven primarily by a good performance in the large- scale sector. In 1998, growth was strongly related to the recovery in the small- holder agricultural sub-sector. During the years of drought, the economy experienced food shortages. However, during 1998/99, the economy had a maize surplus in excess of 500,000 tonnes partly as a result of the **starter pack initiative**, which saw government distributing free seeds and fertilizer to smallholder farmers.

20. During the period since the starting of the Structural Adjustment Programmes, the Government under the support of the World Bank and the International Monetary Fund (IMF), adopted and implemented many reforms within the agricultural sector such as (a) liberalizing the markets for inputs (fertilizer and seeds) and output commodities; (b) changing the pricing and marketing policies letting market forces of supply and demand play freely; (c) repealing of the **Special Crops Act**, thereby lifting restrictions for smallholder farmers to participate in growing high value export commodities such as tobacco; (d) removal of subsidies on inputs and any concessions on credits; (e) restructuring of input output and credit delivery system; and (f) commercialisation of all state-owned parastatals in the agricultural sector. All these reforms were holistically adopted and implemented in the hope that they would improve efficiency and competitiveness in the sector.

21. However, these reforms have created weak competition and serious market failures in the credit, farmer advisory services, and in the input and output markets posing severe consequences for the majority of the rural poor. In view of these developments, the Ministry of Agriculture and Irrigation, through the Agricultural and Livestock Development Strategy and Action Plan (ALDSAP) have reviewed its policies, strategies and action plans. The review, among other things, has led to the implementation of both short term and long- term development projects and programs aimed at reversing the downward trend thereby enhancing growth in the sector.

22. Key short term measures included: the introduction of the Starter Pack Initiatives (through which government disburses fertilizers and improved seeds to farmers free of charge); the Agricultural Productivity Investment Program (APIP) (an input credit program); the Seed Multiplication Program supported by the European Union and the tobacco credit facility.

23. Long term strategies included: the review of the policies in the sector; improving the working of the markets; and the development of the irrigation farming; on policy review, the Ministry is revisiting the roles of the public and private sector organizations in the agriculture sector; on markets, the Ministry is seeking ways of addressing market failures created by the reform programs; and on irrigation, the Ministry is seeking financial assistance from various donors to expand hectareage of irrigated area from the current 57,000ha to about 400,000ha. by the year 2020.

24. The challenge remains in addressing the constraints faced in agricultural production, marketing, and distribution as well as in the diversification into non-traditional agricultural exports. Some of problems to address include inadequate producer incentives, inadequate credit and extension services, inadequate rural infrastructure including feeder roads to allow private sector involvement in marketing inputs and outputs.

### *Manufacturing*

25. The manufacturing sector's growth rate was -0.6 per cent in 1996 compared to 5.5 per cent in 1995, 1.0 per cent in 1997, 1.5 per cent in 1998 and a growth of 1.8 per cent in 1999. The share of manufacturing in GDP is stagnated at 13 per cent. The target is 25 per cent contribution to GDP by the year 2020. The major constraints in the manufacturing sector include a weak industrial base, concentration on a few sub-sectors, limited linkages, inadequate standards and quality assurance,

limited international marketing capabilities, landlockedness resulting in high transport cost, and stiff competition brought about by the influx of cheap imports of manufactured goods. The recent problem of weak exchange rates in some of the neighbouring trading partners has also affected adversely the country's manufacturing sector.

26. To promote growth in the manufacturing sector, government has undertaken major policy reforms focusing on removing the constraints and rigidities facing the sector so that a broad-based and diversified growth can take place. For example, government eliminated the authority to grant exclusive product rights, revised the duty drawback system and reduced the scope of industrial licensing requirements to a short list of products. In addition, the Malawi Investment Promotion Agency (MIPA) was established, the process of registration and incorporation of companies was streamlined or shortened. Furthermore, after passing the EPZ Act, Government instituted an Export Processing Zones (EPZs) programme. The Government strategy is to focus on the promotion of textile and garment industries, wood processing and agro processing, among others.

#### *Financial Services*

27. There have been significant developments in the financial sector in the last six years (1994-2000). Six new banks have been licensed. However, the sector is still dominated by the National Bank of Malawi and the Commercial Bank of Malawi in which the Government has some financial stake. The insurance industry is fairly developed in Malawi. Currently, the industry has ten insurance companies, ten insurance brokers and forty-seven insurance agents. The capital market sector has also experienced some positive developments during the period. The major one being the establishment of the Malawi Stock Exchange (MSE) in 1996. Eight listings have so far taken place on the exchange, mostly as a result of the privatisation of state-run companies. The exchange has one stock broker and two transfer secretaries. The other major development that has taken place is the review of the legal framework. The Reserve Bank of Malawi has finalized the drafting of the Securities Act.

#### *Tourism*

28. The tourism sector in Malawi is still at a low level of development and has the potential for growth to provide income, foreign exchange earnings and employment. Although the country is endowed with natural, historical and cultural attractions, the growth of the tourism sector is hampered by inadequate product development, lack of clear tourism regulations, inadequate supporting infrastructure and lack of strategic approach to marketing and communication in Malawi's major tourist generating markets.

29. In order to develop the tourism sector, the Government has embarked on major activities such as: undertaking a five year (2002-2006) Tourism Strategic Development Study; undertaking feasibility studies of selected potential sites to attract investment in the tourism sector; reviewing the country tourism regulations; positioning of Malawi as a destination of choice; upgrading and maintaining the vital components of the existing products; and increasing the focus on quality standards.

#### *Telecommunications*

30. The telecommunications sector was liberalised following the enactment of the Communications Act in 1998. The liberalisation led to an increase in the number of operators as well as the separation of postal services from telecommunications. The target is to raise the number of working lines from 45,000 to 150,000 by 2005. A communications regulatory authority has been created to ensure that open entry exists in the provision of public telecommunications services. There

are two operators providing GSM mobile telephone service and about seven internet service operators. Government has liberalised the provision of all telecommunication services; national, international and non-basic telephone services including Very Small Aperture Terminal (VSAT), e-mail, paging and Internet. The Malawi Communications Regulatory Authority is contemplating to issue a third mobile telephone operator. Invitation to bid has already been made. Malawi Telecommunications Limited has a monopoly in the provision of fixed-line phone service. In order to bring in competition, government has embarked on the privatisation of the Malawi Telecommunications Limited through strategic partnership. The Government has yet to identify a suitable long-term partner.

### *Transport*

31. Malawi is a landlocked country dependent on overland movement of exports and imports. Its transport network and its connections to neighbouring countries are, therefore, of utmost economic importance. Over the years the sector has been characterized by high transport costs due to institutional weaknesses, restrictive policies and regulations, and poorly maintained, and inadequate road network especially in rural areas, where on the aggregate, the highest percentage of economic production takes place.

32. In view of this, the Government has recently approved a National Transport Policy which calls for the implementation of appropriate policies and regulatory measures aimed at improving operational efficiency and service quality on transport, which will make-up for their competitiveness, productivity and profitability.

33. In the domain of infrastructure, the process of reforming the management and financing of the road sector has begun. A National Roads Authority was created in 1997 and took over the responsibility (from the Government) for road construction, road rehabilitation and routine maintenance activities. A Road Fund was also created to ensure the availability of funding. The main source of revenue is the fuel levy collected from petrol and diesel sales and, very shortly, from road user charges.

34. The liberalization of market entry to allow private sector companies enter into provision and operation of transport services was done in 1994 so that state owned companies such as Air Malawi Ltd, Malawi Railways Ltd, Stagecoach Bus Company Ltd, etc were no longer a monopoly. During the same year, freedom to set tariffs, entry and exit into transport market was granted. Import of second hand transport equipment was also deregulated, leading to an increase in competition and services.

35. In respect of the state owned enterprises, the Malawi Railways (1994) Ltd was concessioned to a private operator in 1999. Air Malawi was commercialised and plans exist to privatise the Airline. Plans are also at an advanced stage to privatise Malawi Lake Services and the Ports.

36. In respect of the institutional framework, the Ministry of Transport and Public works has been restructured and its role now is primarily to establish facilitative policies, regulate the transport sector and to carry out strategic planning. The role of providing transport infrastructure is moving to the private sector.

### *Energy*

37. Malawi is endowed with several forms of energy resources, which include biomass, coal, many perennial rivers for hydropower generation, high solar radiation, wind energy for water

pumping and other minor applications, hot springs for geothermal power generation, and uranium deposits. Petroleum products are exclusively imported.

38. The energy balance of Malawi is dominated, in terms of production and consumption, by biomass sources. These traditional sources account for 97 per cent of production. Fifty-nine per cent of this biomass is used in its primary form as firewood (52 per cent) and residues (7 per cent), and the remaining 41 per cent is converted into charcoal in traditional earth moulds.

39. In terms of the production of commercial fuels, the only major indigenous sources are coal, uranium deposits, and electricity. About 97 per cent of the petroleum products are imported, the remaining 3 per cent comprises locally produced ethanol which is blended with petrol.

40. Considering that competitive economies need energy policies that ensure that adequate and secure supplies of energy are available at affordable prices to all sections of the society, government has put in place an Energy Policy which provides an operational framework for the energy sector as well as guidelines on issues related to energy development, supply, consumption, distribution and pricing.

#### *Fisheries*

41. The fisheries sector policy in Malawi aims to sustain the contribution the sector makes to poverty alleviation programmes in the country. The sector has experienced substantial decline in production from the beginning of the 1990s. Overall fish production is now at an average of about 48,00 metric tonnes per year from about 70,000 metric tonnes per year in the 1980s. The bulk of production is from the small-scale artisanal fisheries while only 10 per cent is contributed by the commercial sector. Economically, fishing contributes about 4 per cent of the GDP.

42. The focus of government now is to stimulate fish production from the deeper waters of Lake Malawi that are presently under-exploited and to promote investment in fish farming. In order to stimulate growth in these areas, government has introduced the tax-free facility for the import of equipment and gears targeting the fisheries industry. The country is experiencing increased investment in commercial fish farming initiated by statutory agencies, namely Press Corporation and Malawi Development Corporation. These agencies are undertaking substantial investment in cage fish farming and pond based fish farming respectively.

43. To ensure that the fishery products of Malawi are able to compete favourably in the export trade, it will be necessary to develop a comprehensive Sanitary and Phytosanitary (SPS) measures, safety and quality control framework in line with internationally established standards. Malawi will require support in terms of technical and financial assistance in order to upgrade its capacity to comply with measures and standards demanded by importing countries.

#### *Forestry*

44. Forest resources in Malawi cover an estimated 28 per cent of the total land area of 9.4 million hectares. About 11 per cent of this area is in national parks and game reserves, 10 per cent in forest reserves and 7 per cent is on customary land. Most of the forests are in upland and hilly areas and along rift valley scarps. Plantation forests constitute about 1 per cent of the total land area under forest cover.

45. Natural forest resources provide 93 per cent of the natural fuel requirement. The industrial plantations are one of Malawi's most under utilised natural resources. They are capable of supplying

14 per cent of Malawi's sustainable wood production from closed forest area. This under utilisation provides the greatest potential for investors particularly in the area of wood processing.

46. In 1996, government adopted a National Forest Policy to provide an enabling framework for the participation of the communal and private sector in forest conservation and management. Other than land, commercial activities in the domain of forestry are undergoing privatisation.

#### *Mining*

47. The current contribution of the mining sector to GDP is less than 1 per cent. However, the Government goal is to increase its contribution to over 5 per cent of the GDP in the next three years. The major mining activities include production of coal, cement, gemstone and lime. The country, however, has potential in gold, bauxite, diamond, copper, petroleum and platinum group metals.

### **III. TRADE ENVIRONMENT**

#### **(1) EXTERNAL TRADE PERFORMANCE**

48. The external trade performance, as assessed in terms of visible trade balance has remained unsatisfactory for the period 1994-2000. The trade balance has continued to be negative and the gap progressively widened. In 1994, total exports (f.o.b.) amounted to MK 2.7 billion against imports of MK 4.7 billion. In 1999, total exports (f.o.b.) amounted to MK 18.0 billion against imports of MK 27.8 billion. In nominal terms, exports showed an increasing trend. The increase has largely been due to the depreciation of the Malawi Kwacha. In real terms domestic exports have been fluctuating, recording lower export volumes particularly during years of drought.

49. The traditional agricultural exports namely tobacco, tea, sugar, coffee, cotton, rice, and pulses remained as the major foreign exchange earners. Imports have largely been machinery, vehicles, petroleum products and fertilizers.

50. The major trading partners of Malawi include South Africa, the United Kingdom, Germany, Zimbabwe, the United States of America, the Netherlands, Japan and Switzerland.

51. The main constraints facing the export sector are: poor access to international markets; low supply capacity of most of the non- traditional exports; and over dependency on a few traditional export products. Export development efforts have, therefore, focused on the development of new export products, market diversification, and consolidation of supply particularly among the small and medium enterprises (SME's).

#### **(2) TRADE POLICY OBJECTIVES**

52. Prior to 1996, Malawi's economy was controlled using such instruments as foreign exchange rationing, industrial licensing, import and export licensing, price controls and official determination of exchange rates. This made it difficult for the various sectors of the economy to perform efficiently. The primary objective of trade policy is to create an environment conducive to the good performance of the private sector. Such an environment will help the private sector to be efficient and competitive, both domestically and internationally with a view to ensuring the sector's maximum contribution to the achievement of overall-economic objectives.

53. To achieve this objective, the Government will focus mainly on two fronts. On the industrial front, the emphasis will be on: the development of support infrastructure for industrial growth; development of agro-industries; broadening the industrial base; development of small and medium

scale industries; development of science and technology to enhance industrial competitiveness; development of export oriented industry aimed both at increasing the volume and diversifying the range of manufactured exports.

54. On the trade front, attention will be focussed on: ensuring the supply of essential goods and services; consolidation of existing export products and markets, and diversification of export product and markets to enhance foreign exchange generation; development of a conducive trading environment; and increasing participation of Malawians in trading activities. Achieving these policy objectives requires capacity building and dealing with supply side constraints.

55. Malawi has been implementing a number of policy measures to create a stable and liberalised trade environment. The policy measures were geared towards creating favourable conditions for quick economic recovery and eventual achievement of sustainable high rate of growth. As a consequence of this, the economy has become increasingly open to imports. The foreign exchange controls have been relaxed; import and export licensing has been removed (except for few items on which control is necessary mainly for health, security, safety and environment); price controls have been abolished; industrial licensing has been removed except for a few products; non tariff barriers eliminated; marketing of agricultural produce liberalised; and tax reforms aimed at broadening the tax base and lowering tax rates introduced. The tariffs on most goods have been reduced substantially and the maximum is at 25 per cent. Duties on capital equipment and some intermediate goods like computers have been brought down to 0 per cent.

56. While this liberalisation programme has made Malawi more open to the international market, it has not resulted in a major change in the contribution of the trade to the economy. Imports and exports averaged 53% of GDP. The composition of Malawi's exports also changed a little except that tobacco increased its share of total export while groundnuts declined. Malawi's major exports remained largely dependent on agricultural products such as tobacco, tea, coffee, sugar, cotton and rice. While Malawi has a comparative advantage in textile and clothing industry, the major problem has been access to Europe and North American market due to transport costs and restrictive rules in those markets. With the American and the European Union initiatives called the Africa Growth and Opportunity Act (AGOA) and the Everything But Arms (EBA) respectively, it is expected that Malawi will increase her exports to these markets.

57. Although there seem to be good international demand for Malawi tobacco, in general, tobacco is becoming a victim of anti-smoking campaigns. With respect to tea, the prices at the London market have been declining and there is need to find alternative markets. Diversification of export commodity remains a policy objective. Malawi has to look for new markets for traditional export crops in addition to developing new export products such as paprika, cut flowers, manufactures and internationally tradable services.

58. The other challenge for Malawi commodity trade will be the attainment of price competitiveness, high quality and production levels and improvement in the flow of market information to small exporters, improving the infrastructure in particular transport, identification of new exports and mobilisation of capital to start new investments geared towards exports.

59. Foreign Direct Investment Inflows have been relatively low. Inward inflow as a proportion of gross fixed capital formation was at 2.8 per cent in 1994 and increased to 12.3 per cent in 1995 while the corresponding figure for Sub-Saharan Africa were 12.3 per cent and 10.2 per cent, respectively. (The World Investment Report 2000 estimates that Malawi received close to US\$60 million of FDI in 1999 compared to US\$70 million in 1998 and US\$22 million in 1997, amounts which are tiny by international standards). Malawi's prospects in foreign direct investment are strongest in the textile

manufacturing sector and there is added advantage of increased export earnings. In addition to agro-processing, Malawi is expected to see a substantial increase in FDI in the tourism sector.

60. With the overall emphasis of Poverty Reduction Strategy emerging from the PRSP process, the Government is working toward mainstreaming trade into the PRSP process.

### **(3) TRADE POLICY FORMULATION AND COORDINATION FRAMEWORK**

61. The National Working Group on Trade Policy was formed in 1997 which brings together the private sector and public sectors in trade policy formulation and implementation. Trade policy formulation is done through a consultative process and implementation is also done by all stakeholders, (the Government and the private sector). The working group has been operating on an ad hoc basis but work is under way to formalise the Group. There is a Trade Agreement Working Committee which coordinates and discusses issues relating to bilateral trade agreements. There is also an inter-Ministry/Agency Committee on WTO matters which is supposed to follow-up on matters of the WTO including the implementation of WTO agreements. There are also sub-committees to look into specific issues such as Sanitary and Phytosanitary issues. The inputs of the National Working Group on Trade Policy are fed into the Trade Agreements Working Committees.

### **(4) COMPETITION AND FAIR TRADING**

62. Government has a challenge to promote and institutionalise a 'competition culture' in Malawi. To this end, Parliament passed a Competition and Fair Trading Act in 1998. The Act became operational on 1<sup>st</sup> April, 2000. The purpose of the ACT is to encourage competition in the economy by prohibiting anti-competitive trade practices and to provide for the establishment of the Competition and Fair Trading Commission. But the institutional framework ( the Commission) is yet to be set-up due to lack of funding. In addition, government will be passing Consumer legislation. Substantial technical and financial assistance is required to establish a viable Competition Commission and a Consumer Protection Body.

### **(5) DOMESTIC LAWS AND REGULATIONS GOVERNING TRADE**

#### *Customs and Excise Act of 1972*

63. The Act governs the administration, management and control of custom and excise, the imposition and collection of customs, excise and other duties and for matters connected therewith. The Malawi Revenue Authority is responsible for regulation.

#### *Export Promotion Act of 1971*

The objective of this Act is to facilitate the development of sustained and competitive exports of agricultural and manufactured products particularly high value non- traditional exports. The Act led to the establishment of the Export Promotion Council of Malawi (MEPC).

#### *Investment Promotion Act of 1991*

64. Provides for a legal framework for facilitation of all investment processes and accords paramount status to the policies and procedures contained in the statement of investment policies. The Malawi Investment Promotion Agency is the implementing agency of the Act.

*Bureau of Standard Act of 1972*

65. This Act established the Malawi Bureau of Standards and provides for the development of national standards and schemes for the implementation of these standards including product certification. The national standards development are mainly based on International Standards issued by the International Organisation for Standardisation (ISO), and the Codex Alimentarius Commission (CAC).

*Public Enterprise (Privatisation) Act of 1996*

66. This provides the framework for the privatisation and commercialisation of public enterprises, public commercial entities and public commercial assets and provides for the establishment of the Privatisation Commission.

*Industrial Act of 1992*

67. The primary objective of this Act is to support and encourage private sector development by creating a conducive environment for business that will improve the competitiveness of industry, maximise economic and social benefits and increase participation of Malawians.

*The Companies Act of 1986*

68. The main objective of the Companies Act is to regulate the conduct of companies and shareholders' rights and facilitate the registration of all companies operating in Malawi. It does not prescribe equity participation limits on foreign investment.

*Capital Market Development Act of 1990*

69. The purpose of this Act is to provide for the development of the capital market, to expand access by companies in Malawi to term financing for development purposes, to provide the utilisation of savings and excess liquidity in domestic development and to provide adequate regulation of the capital market and self regulatory organisations, to foster development of fair and orderly financial markets and to provide for matters incidental thereto or connected therewith. The Act is administered by the Reserve bank of Malawi.

*Legislation under amendment or preparation*

70. Intellectual Property Legislation is being amended to be in line with the provisions of the WTO TRIPS Agreement. The Government, through the Ministry of Commerce and Industry, is working on Trade Remedy draft law to cover Anti-dumping, Safeguard measures and Countervailing measures. Government is also working towards establishing laws on food safety and control. The major constraint is the capacity to review and draft these laws and build institutional mechanism for implementation. Technical and financial assistance is needed in this area.

**(6) MULTILATERAL, REGIONAL AND BILATERAL TRADE ARRANGEMENTS**

71. Malawi is fully committed to participating in the multilateral trading system. Malawi signed the Marrakech Agreement in 1994 and became a founding member of the WTO Organisation in May, 1995. Just like many least developed countries, Malawi did not participate fully in the Uruguay Round of negotiations. Malawi is a signatory to the Cotonou Agreement between the ACP and the EU and has been a participant in and beneficiary under the Lomé Conventions. The country is also a beneficiary of the Africa Growth Opportunity Act (AGOA) of the Government of the United States of

America. Malawi's view about the WTO is that the rules and disciplines that emerge from the negotiations should support efforts for strengthening supply capacities, improving market access for products of interest to her and providing flexibility in the use of appropriate policy instruments to enhance the process of structural transformation of the economy.

72. On Regional Integration, Malawi is a member of both the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC). The objectives of COMESA and SADC include among other things, facilitating, increasing and promoting intra-regional trade through the gradual reduction and eventual elimination of tariff and non-tariff barriers. COMESA and SADC also aim at promoting cross border trade and investment and at enhancing the economic development, diversification and industrialization of the region. COMESA envisages the establishment of a Common External Tariff by the year 2004. The SADC Trade Protocol was signed in 1996 and aims at establishing a Free Trade Area within eight years of its entry into force. Liberalisation of about 85 per cent will be completed by 2008 with the remaining 15 per cent to be completed between 2008 and 2012.

73. There are several opportunities for Malawi in joining these regional groups. Apart from market access opportunities, cooperation in the area of transport, energy and infrastructure development provides a window for the alleviation of some of the major constraints faced by a small land-locked economy. But there are also difficulties arising from overlapping membership. There are problems of documentation, understanding and interpretation of the rules of origin by the private sector.

74. Malawi has bilateral trade arrangements with South Africa and Zimbabwe. The agreements have modest rules of origin. There are prospects to negotiate new bilateral trade agreements with Mozambique, Tanzania and Zambia. Both Mozambique and Tanzania are not members of COMESA but they are members of SADC.

#### **(7) OTHER TRADE RELATED MEASURES**

75. Government is striving to ensure that all relevant institutions, especially enquiry points are made to understand the provisions of the WTO's SPS, TBT, TRIPs and other Agreements. Most institutions are, therefore, working towards aligning their laws and regulations to the provisions of the SPS Agreement to assure the safety and health of human, animals, and plant protection as well as protection of territory from trade related hazards. Modernising of laboratories and developing human capacity still remains a critical issue.

#### **(8) INVESTMENT MEASURES**

76. The Government of Malawi recognises and acknowledges that the private sector is the engine of economic growth. Government role is, therefore, to facilitate rather than regulate private investment. An investment Promotion Act was enacted in 1991, in order to promote, attract, encourage and facilitate both domestic and foreign investment in the country. To facilitate investment promotion, government is determined to reduce bureaucratic delays by establishing a One-Stop-Shop Investment Promotion Agency. Other initiatives include intensification of efforts to promote Spatial Development initiatives that include the Zambia-Malawi-Mozambique Growth Triangle and the Nacala and Mtwara Development Corridors.

77. Government recognises that greater national efforts are required to increase domestic resource mobilization and in particular the level of savings. This is partly because 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. Reforms in the financial sector will continue and will be directed at

increasing competition by encouraging new entrants. Government plans to establish a Unit Trust and strengthen its privatisation programme, continue to pursue macro-economic policies and enact new measures to deregulate the private sector and create new investment opportunities.

#### **IV. MALAWI AND THE MULTILATERAL TRADING SYSTEM**

##### **(1) IMPLEMENTATION OF THE URUGUAY ROUND AGREEMENTS**

78. Malawi sees the WTO as an increasingly important framework for achieving national trade policy objectives. The increasing complexity in the multilateral trading system works against Malawi, given her limited technical, financial, institutional capacities. Malawi has not yet established any representation in Geneva and this exacerbates the difficulties of Malawi's participation in any future negotiations under WTO. However, the Government is looking into how best to proceed in creating an office in Geneva. Interpretation of the various Uruguay Round Agreements has also been a major challenge.

79. Malawi's major implementation challenges is the capacity constraints (financial, human and institutional) to: Comply with Notification requirements; align national laws, rules and regulations to WTO requirements and enforce the laws and regulations, e.g. Anti-dumping, safeguard measures, Countervailing duties and copyright; comply with Agreement on Customs Valuation and Dispute Settlement Procedures.

80. In order to effectively implement Malawi's obligations and rights under the WTO, Government, with the assistance of the Commonwealth Secretariat and other international donors such as Department for International Development (DFID) and Economic Commission for Africa (ECA) is working on amending existing trade-related laws and drafting new ones to be in conformity with WTO Agreements.

81. Malawi needs to develop trade negotiating strategies. There will be need to strengthen the National Working Group on Trade Policy as well as the inter-ministerial committee on WTO matters. This will entail wider inter-organisational relationships and increased consultations. Equipping government officials with necessary negotiating skills is an important area where emphasis is also put on.

82. Capacity building (including the creation of awareness of multilateral instruments to stakeholders) is at the core of the needs of Malawi in her efforts to fully and effectively integrate into the world economy and the multilateral trading system. Malawi welcomes the Integrated Framework for Trade-Related Technical assistance, which was adopted in 1997.

##### **(2) IMPLICATIONS OF OTHER TRADING ARRANGEMENTS ON MALAWI**

83. Malawi being a member of the ACP group is faced with the challenge of starting negotiations under the Cotonou Agreement in September 2002, which will lead to reciprocal trading arrangements. She has at the same time a special relationship with the U.S. under the AGOA. Malawi has to continue negotiating under regional and bilateral trading arrangements. Malawi, already struggling to effectively participate in the WTO negotiations and faced with challenging negotiations and options under the Cotonou Agreement, will need technical assistance in this area.

84. Malawi being an LDC is a beneficiary of the Everything But Arms (EBA) under the ACP/EU new partnership arrangement and qualified starting from 17 August, 2001 to export to the USA under the AGOA. Some positive results are starting to emerge under these initiatives for the textiles and clothing sector and sugar.

## V. CONCLUSION

85. The conclusion of the Uruguay Round in 1994 and the creation of the WTO in 1995 had been expected to provide for the smooth integration of Malawi into the global trading system. But the country is still struggling to minimise the marginalisation in the global trading system and economy. Enhanced market access, balanced rules and well targeted, sustained financial and technical assistance as well as capacity building would assist in reducing marginalisation. Malawi's economy is very fragile with a narrow production and export base and lacking in key social services and infrastructure. The landlockedness of the country and the corresponding difficulties this situation brings about and the need for high quality infrastructure pose a particular challenge in providing for the growth of the private sector.

86. Although Malawi has attained great achievements in deregulating the economy, it still faces major challenges of restoring and sustaining macroeconomic stability, addressing supply-side constraints, putting the economy on a path of higher growth as the basis for substantial reduction in poverty and of dealing with an economy that is vulnerable to various shocks both internal and external. The challenge is for the country to attain a sustainable economic growth.

87. The Malawi government remains committed to transforming its economy in order to eradicate poverty. A national shared vision – **vision 2020** has also been developed to tackle deep-rooted poverty. This includes mainstreaming trade into the development Agenda of poverty reduction. Government has also introduced fiscal and monetary policies, privatisation of public enterprises, controls on government expenditure to reduce fuelling inflation and trade liberalisation programmes. The enforcement of accountability and improved governance is being pursued vigorously as an important element in increasing transparency in public finances. While the economic development prospects will depend on her ability to adjust, there will be need for increased support and assistance from the international community so as to meet adjustment costs, including the provision of unrestricted market access to products of export interest to Malawi.

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