



MALAWI GOVERNMENT

National Trade Policy

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Table of Contents

1	Introduction	8
1.1	Background	8
1.1.1	<i>Linkages with other relevant policies</i>	9
1.2	Statement of the Problem	9
1.2.1	<i>Key constraints</i>	9
1.3	The Purpose of the Policy	10
2	Broad Policy Directions:	11
2.1	Policy Goal	11
2.2	Policy Outcomes	11
2.3	Policy Objective(s)	11
3	Policy Priority Areas	13
3.1	Market Access for Malawi’s Exports	13
3.2	Improve the Business Operating Environment	15
3.3	Narrow Productive Base: Investment and Skills	17
3.4	Promoting, and Reducing Entry Costs to, Pro-Poor Trade....	18
3.5	Trade Mainstreaming and Support	19
4	Implementation Arrangements	22
4.1	Institutional Arrangements	22
4.2	Implementation Plan	22

Foreword

Starting from 2012, the Government of Malawi through the Ministry of Industry and Trade has embarked on a drive through the National Export Strategy (NES) to diversify the export base and markets of Malawi with the objective of improving the livelihoods of Malawians through export-led growth that is inclusive of MSMEs. This is in line with the Malawi Growth and Development Strategy (MGDS II) thematic area on sustainable economic growth. It aims to achieve this through comprehensively addressing binding constraints on Malawi's business environment and focusing on three priority product clusters that have high economic spill-overs into higher earning value added products and which have a high potential for a pro-poor growth.

In light of this, Malawi's trade policy must be aligned to our aspirations as articulated in both the MGDS II and the NES. The existing trade policy dates back to 1998 and Malawi's domestic and external conditions under which its industry and trade operates have since changed substantially. This policy therefore provides a succinct direction on how government intends to use trade policy as an instrument for building a robust productive base, generating enough output, and facilitating smooth trade, which is the current dream. This policy seeks to drive *structural transformation of the productive sector through supporting and managing integration in regional and global markets as well as value chains with the ambition of increasing exports.*

The most critical component of realising the potential of trade policy is to ensure high level political commitment to implementation and prioritisation in a way that is consistent, credible, transparent and sustainable. This trade policy therefore is underpinned by government's commitment to use the existing processes, action plans and institutional reforms as identified by the NES and the National Industrial Policy (NIP). This will ensure that the policy avoids the duplication of existing initiatives.

As we may be aware, trade policy could be rendered ineffective without appropriate accompanying domestic support policies. For instance, our intention to increase export will become ineffective if our food security policies discourage exports. This policy therefore will be implemented through a multi-stakeholder approach, transparent and consultative mechanisms that would guarantee consistency with domestic support policies. I therefore look forward to continue working with all cross sections

of our economy, including the private sector, civil society, academia, and development partners to ensure that this policy delivers its objective.

Hon. Joseph Mwanamvekha, MP
MINISTER OF INDUSTRY AND TRADE

Preface

The National Trade Policy has been developed to provide a framework for formulation, implementation and coordination of trade related policies. Trade related policies have, for over a decade now, been formulated and implemented in the absence of a well-planned framework that links trade to Malawi's overall development objectives. The object of this policy therefore is a well thought out framework within which trade policy and domestic support policies could be applied in a way that would engender a long term pro-poor development of the Malawian economy and address the short to medium term balance of payment issues.

The policy has identified five (5) priority areas – market access (esp. non-tariff barriers), business environment, narrow productive base, high entry cost for small scale producers and traders, and implementation gap – to developing the trade sector. These have formed the basis for key policy recommendations. Key policy instruments have also been recommended to tackle the spectrum of trade policies at the national, regional and multilateral levels.

Implementation opportunities exist in the current Trade, Industry, and Private Sector Development Sector Wide Approach (TIPSWAp) arrangement. However, there would be need to overcome the issue of resource constraints and multi-sectoral planning and budgeting.

The policy was formulated with technical support of a consulting firm, Imani Development International, through a comprehensive consultative process that included all the stakeholders from public, private and civil society and academia amongst others; and peer-reviewed by a group of international trade policy experts as well as a dedicated group of officers within the Ministry of Industry and Trade itself.

I want to use this opportunity therefore to thank all stakeholders who continue to work with us tirelessly, especially our development partners. I want to specifically thank the United Nations Development Programme (UNDP), who have supported the development of the National Export strategy, National Industrial Policy, and this trade policy. Lastly, I acknowledge the dedication by the Department of Trade, key directors in the Ministry and our Trade Advisor under the Commonwealth Secretariat's "Hub & Spokes Programme" to this work.

Cliff K. Chiunda
SECRETARY FOR INDUSTRY AND TRADE

List of Acronyms and Abbreviations

AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
BIT	Bilateral Investment Treaty
BRICS	Brazil, Russia, India, China and South Africa
CAADP	Comprehensive African Agricultural Development Plan
COMESA	Common Market for Eastern and Southern Africa
DTIS	Diagnostic Trade Integration Study
DTA	Double Taxation Agreement
EAC	East African Community
EBA	European Banking Authority
EDF	Export Development Fund
UK	United Kingdom
USA	United States of America
FSTAP	Financial Sector Technical Assistance Project
EU	European Union
FDI	Foreign Direct Investment
FIP	Finance and Investment Protocol
FSDT	Financial Sector Deepening Trust
GATS	General Agreement on Trade in Services
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GNI	Gross National Income
GOM	Government of Malawi
GVC	Global Value Chain
HIV	Human Immunodeficiency Virus
HQCF	High Quality Cassava Flour
ICSID	International Centre for the Settlement of Investment Disputes
ITC	International Trade Centre
LDC	Least-Development Country
ACE	Agricultural Commodity Exchange
MBS	Malawi Bureau of Standards
MGDS	Malawi Growth and Development Strategy
MIGA	Multilateral Investment Guarantee Agency
MITC	Malawi Investment and Trade Centre
MOIT	Ministry of Industry and Trade

MSMEs	Micro Small and Medium Enterprises
NES	National Export Strategy
NIP	National Industrial Policy
NTB	Non-Tariff Barrier
NTF-AP	National Trade Facilitation Action Plan
NTP	National Trade Policy
PPP	Purchasing Power Parity
R&D	Research and Development
RoO	Rules of Origin
SADC	Southern African Development Community
SPS	Sanitary and Phytosanitary
STR	Simplified Trade Regime
TAF	Trade Advocacy Fund
TAML	Tea Association of Malawi Ltd
TBT	Technical Barriers to Trade
TFTA	Tripartite Free Trade Area
TIP SWAp	Trade, Industry, and Private Sector Development Sector-Wide Approach
WEF	World Economic Forum
WRF	World Rural Forum
WRS	Warehouse Receipt System
WTO	World Trade Organisation

1 Introduction

This trade policy conveys the Government of Malawi's commitment to make trade a tool for sustainable socio-economic development and poverty reduction as espoused in the Malawi Growth and Development Strategy II. The policy reflects the range of opportunities and challenges facing Malawi. It recognises the critical issue of implementation – of both the trade agreements already in place and sectoral policies needed to harness trade for development. Consequently, it is particularly entwined with National Export Strategy (NES) and the National Industrial Policy (NIP), their priorities and implementation structures.

1.1 Background

Trade has fundamentally shaped the economy of Malawi. Despite being a Landlocked Least Developed Country (LDC), Malawi has a relatively high export to GDP ratio of 30%. Malawi's exports are primary or semi processed products, which are developed solely for sale to the global markets. Malawi also relies heavily on imported goods, in particular fuel, fertiliser, and most manufactured goods.

A key challenge for Malawi is an unsustainable trade deficit due mainly to narrow productive base and weak domestic and international trade linkages and systems. Imports increased from approximately US\$2 billion in 2009 to about US\$2.8 billion in 2013 representing about 40% increment. On the other hand exports increased from US\$1.1billion in 2009 to merely US\$1.2billion in 2013 representing a meager growth of only 1.7%. As such exports have failed to keep pace with imports, resulting in a widening trade deficit. While a low-income country such as Malawi, with a low level of savings and high investment needs, would be expected to import more than it exports, the trade deficit of Malawi is unsustainable without an expansion and strengthening of the exports sector¹.

A further challenge is a concentrated export base, creating volatility in Malawi's export earnings. Tobacco dominates Malawi's export basket, accounting for around 50% of Malawi total exports (exceeding 60% in some

¹ Onelie Nukuna "Sustainability of the Malawian current account deficit: Application of structural and solvency approaches" Journal of Economics and International Finance, Vol 5(5) August 2013.

years); mining around 11%, sugar at 9%, coffee and tea at 8% and oil seeds at 7%.

The poor external performance has contributed to Malawi's fundamental development challenge of slow economic growth relative to population. Malawi's GDP per capita is increasingly falling behind the rest of the countries in Sub Saharan Africa.

1.1.1 Linkages with other relevant policies

In developing this policy, there was recourse to a number of policy documents. The trade policy is anchored on the Malawi's Growth and Development Strategy (MGDS II), which is the overarching development policy document and other key strategies and policies such as the National Export Strategy (NES), the draft National Industrial Policy (NIP), MSMEs Policy. The above policies aim at developing a competitive Malawi that is driven by a diversified and strong productive base, promotion of value addition, a conducive business environment, and improved market access.

1.2 Statement of the Problem

Malawi trade deficit continues to widen despite the numerous market access opportunities available at bilateral, regional and multilateral levels. The key challenges remain in trade competitiveness and development of comparative advantages.

1.2.1 Key constraints

The key constraints underlying these problems have been identified as:

1. Market access – restrictive Non-tariff measures, non-tariff barriers and the lack of certainty regarding both external and internal market access
2. Imperfect business operating environment,
3. Narrow productive base: investment and skills
4. The high cost of entry into markets for small scale producers and traders
5. Trade mainstreaming with regards to:

- a. Implementation including inadequate institutional capacity and coordination
- b. policy coherence, in particular in the areas of food security and finance, transport policy and trade costs; trade policy formulation and negotiation

1.3 The Purpose of the Policy

The purpose of this policy is to address weak linkage between trade and overall development objective and binding constraints that have hindered Malawi's ability to take full advantage of existing and emerging market access opportunities. This policy is also necessary to provide direction and enhance domestic policy coherence and coordination.

2 Broad Policy Directions:

2.1 Policy Goal

The goal of the National Trade Policy is to make Malawi *a globally competitive export-oriented economy, generating higher and sustainable livelihoods through trade that recognises the role of MSMEs and the vulnerable groups*. It aims to achieve this goal by driving structural transformation of the productive sector and supporting and managing domestic market structure and integration in regional and global markets through value chains with the ambition of increasing exports.

2.2 Policy Outcomes

The National Trade Policy aims at addressing the challenges that Malawi faces with a view to realizing the following outcomes:

- i. diversified and increased domestic and export trade;
- ii. diversified export markets;
- iii. Increased competitiveness in the domestic market
- iv. Increased participation of small producers and the poor in both domestic and export trade;
- v. reduced trade deficit/ Improved trade balance;
- vi. improved stability of export revenue;
- vii. increased productivity and productive capacity of the private sector;
and
- viii. Increased pro-poor impact of trade.

2.3 Policy Objective(s)

The objective of the trade policy is to address the key constraints to trade that is supportive of broader development goals. The specific objectives are as follows:

1. To eliminate external and domestic policy barriers to trade;
2. To provide support and certainty for traders in the external and domestic market;
3. To reduce the cost of doing business and trading;
4. To facilitate investment and provision of a more secure investment framework;
5. To reduce barriers to movement of service providers and high skilled immigrants;
6. To strengthen the linkages between domestic and international trade;

7. To facilitate cross border market access opportunities for MSMEs;
8. To empower Malawians to participate in the provision of goods and services; and
9. To address the gaps in terms of policy formulation, implementation and institutional framework.

3 Policy Priority Areas

3.1 Market Access for Malawi's Exports

Malawi enjoys a competitive advantage in terms of lower tariffs and unilateral market access under EBA and AGOA, and regional market access under SADC, COMESA and Tripartite Free Trade Area. However, Malawi faces challenges to take full advantage of these market access opportunities due to the existence of restrictive non-tariff measures and barriers². Malawi also faces tariff barriers to trade in some emerging markets, barriers to trade in services in global and regional markets, as well as limited support to the productive sector, all of which affect Malawi's ability to take full advantage of the existing market access opportunities.

Issues

i) Non-Tariff Barriers

Malawi continues to face non-tariff barriers such as import or export controls, restrictive rules of origin; and behind the border measures (including internal charges and taxes). The difficulties and delays caused by Malawi authorities in relation to trade procedures are widely documented. There is limited credibility and certainty of market access arrangements.

ii) Tariff Barriers

Malawi faces tariff barriers specific to NES priority clusters in emerging markets such as Brazil and Russia.

iii) Barriers to trade in services

For trade in services there are substantive barriers in the region for professional services and globally for semi-skilled service providers and these will be addressed in the range of trade agreements currently being developed.

iv) Direct support to market information and market entry requirements

There is limited direct support to the productive sector in Malawi in terms of market information, diversification and entry requirements. It

² A recent (ITC) study found that NTMs affected over three quarters of all firms exporting, a much higher share of exporters affected by trade compared to many other countries in Sub-Saharan Africa. However, the majority of the barriers to Malawi exports reported by companies resulted from Malawi's own policies or from institutional deficiencies

is recognised that there is limited framework to deal with the protection of infant industries, dumping, smuggling, and counterfeits.

Policy Statements

The Government will ensure that:

- i) external and domestic policy barriers to trade in goods and services such as NTBs and Tariff barriers are eliminated;

Key Strategies:

- *Negotiate through bilateral and regional frameworks the elimination of trade barriers*
 - *Enhance identification, reporting and elimination of domestic trade barriers*
- ii) there is greater certainty for exporters in the external and domestic framework for trade;

Key Strategy:

- *negotiate favourable market access (e.g. simple and realistic ROO, DFQF) for Malawi products as well as Mutual Recognition Agreements (MRAs)*
- iii) Direct support for exporters of NES priority cluster products is facilitated;

Key Strategies:

- *Support the development of the national quality infrastructure*
 - *Implement the national trade facilitation action plan including the Malawi Programme for Aflatoxin Control (MAPAC)*
- iv) Dumping, smuggling, and supply of counterfeit products is remedied;

Key Strategies:

- *Legislate the trade remedies, smuggling and counterfeits law*
- *Set up a multi-sectoral national task force on smuggling and counterfeits*

- v) A framework that enhances inclusiveness of farmers and other producers into sustainable and formal market structures is promoted;

Key Strategy:

- *Legislate the warehouse receipt law and promote implementation of the warehouse receipt and commodity exchange systems*

- vi) A framework for export mandates to enhance trade in selected commodities is promoted; and

Key Strategy:

- *Develop and implement the Export Mandate Regulations under the (Import and Export) (Commerce) Regulations of the Control of Goods Act*

- vii) Trade & market information systems are actively promoted.

Key Strategy:

- *Develop and maintain a trade portal and commodity price information systems*

3.2 Improve the Business Operating Environment

In recent years, Malawi has embarked on a number of initiatives to improve its overall business environment, with the aspiration of moving into the top 100 of the rankings from the current ranking of 141. However, Malawi's overall business climate is still ranked low by the World Bank Doing Business Report. This points to an implementation gap, as much as it does to the need for specific reforms.

Trade Policy plays a role in improving the business environment by reducing the costs of trading (in terms of both time and money). This is particularly important for a landlocked country like Malawi. Trade policy is also important in driving through a rationalisation of tariffs on key business inputs and improving the regulation of domestic competition by incorporating the regional dimension to competition policy.

Issue 1: Cost of Trading

i) Customs reform and trade facilitation

There exist cumbersome customs procedures and documentation requirements both at national and regional levels. Customs modernization and co-operation arrangements and trade facilitation instruments in COMESA, SADC and WTO have not been fully implemented.

ii) Trade-related Infrastructure

Trade infrastructure is lacking in particular transport and quality infrastructure including compliance with SPS and TBT requirements.

Issue 2: Cost of Doing Business

i) Import tariff rationalisation

Imported inputs (raw material and intermediate) still attract higher tariffs unlike their related finished products, which is inconsistent with the NES aspirations.

ii) Access to key services

There is shortage of competitively priced services in Malawi in sectors such as energy, transport, telecommunication, financial, which impedes the development of strong industrial sector.

iii) Effective Regulation of Competition

A number of sectors in the Malawian economy remain concentrated, particularly in the transport and financial sectors that are the two key enabling sectors to the productive economy.

Policy Statements

The Government will ensure that:

- i) There is reduction in the cost of doing business by eliminating tariffs on imported inputs of both goods and services;

Key Strategy:

- *Rationalize domestic tariffs to reduce tariffs on inputs*
- ii) There is greater and fairer competition in key services

Key Strategy:

- *Promote competition policy*

- iii) The cost of trading is reduced by improving the transit and customs arrangements and also trade infrastructure (transport and SQAM)

Key Strategy:

- *Implement the national trade facilitation action plan*

3.3 Narrow Productive Base: Investment and Skills

Fundamental to Malawi's long term growth prospects is its ability to attract resources, both investment and skills. Trade policy can play a critical facilitating role in attracting these factors of production. Furthermore, an effective supply response to the incentives created from market access arrangements requires investment in the favoured sector.

Issues:

i) Framework for Investment

The key constraints to investment are more linked to Malawi's macroeconomic fundamentals and lack of strategic focus. With regards to trade policy instruments, there is a limited association between investment agreements signed and investment flows. In addition, the existing incentives regimes and rebate scheme are not robust enough to attract investment.

ii) Inadequate Skills

There is a shortage of skills that is directly and indirectly constraining exports. These skills are mostly related to technical productive and services areas.

Policy Statement

The Government will ensure that:

- i) a more targeted and predictable investment framework is facilitated

Key Strategy:

- *Improve alignment of trade policy and trade-related policies*

- ii) skills transfer is embedded and enforced within its investment frameworks

Key Strategy:

- *Negotiate skills transfer into Investment Agreements and review and include skills transfer into existing Investment Agreements*

3.4 Promoting and Reducing Entry Costs to Pro-Poor Trade

There is limited integration of MSMEs into the formal value chains and international trade. The Malawi Business Linkages Programme has the potential to better integrate MSMEs within the formal economy. The Rural Infrastructure Development Programme is also targeting non connectivity of the rural areas to markets and services.

Issues

i) Cross Border Trade (CBT)

There is limited participation of small scale traders and in particular women and the youths in CBT due to procedural challenges at the border. There is also lack of support for cross border market opportunities within domestic trade-related policies

ii) Business & Trade Linkages

There is weak linkage and limited access to domestic and international markets for MSMEs mainly due to supply-side constraints and access to information.

iii) Limited participation of Malawians in trading activities

There is limited participation of Malawians in trading activities that are currently dominated by footloose foreigners.

Policy Statements

The Government will ensure that:

- i) There are deliberate initiatives to support free movement of goods to markets in neighbouring countries by MSMEs particularly youth and women;

Key Strategy:

- *Implement and expand Simplified Trade Regime to Tanzania and Mozambique*

- ii) The linkage of producers to domestic and international markets is promoted through the business linkage programme;

Key Strategy:

- *Implement the business linkage programme and the cross border traders chatter*
- *Enhance local market structures such as commodity and warehouse receipt systems*

- iii) Malawians are empowered to participate in the provision of goods and services

Key Strategy:

- *Implement the Buy-Malawian campaign strategy*
- *Build the capacity of indigenous traders and promote reforms to enable Malawians to participate in public procurement*

- iv) The economic empowerment Bill is developed to address the challenges of small scale traders.

3.5 Trade Mainstreaming and Support

Malawi is a party to several trade agreements but fails to effectively implement them. The issues of implementation relate to: domestic implementation of trade agreements; implementation of supply side measures including the use of aid for trade and trade remedy measures to protect infant industries; and limited institutional capacity in relation to both technical and financial resources

Issues

- i) **Domestic implementation of trade policy**

There is inadequate legal resource to be able to domesticate regional agreements into national law. There is also lack of transparency and accountability in the implementation of trade policies. Furthermore, agricultural policy (esp. food security), fiscal and monetary policies are often in conflict with trade policy.

ii) Supply Side Constraints

One of the key challenges for Malawi is its inability to generate enough output for exports due to supply side constraints. Building productive base of the economy is the key bane of Malawi's inability to generate enough exports. This is compounded by lack of trade mainstreaming, coordination and information sharing within the key Ministries and other implementing agencies. Agricultural policy in terms of pricing of agricultural commodities further complicates investment decision to increase production. De facto agricultural policy has been limited in promoting commercial agriculture.

iii) Institutional Capacity

Key trade institutions are bedeviled with limited resources, both human and financial, in delivering trade policy objectives. This undermines policy formulation, implementation, and monitoring.

Policy Statements

The Government will ensure that:

- i) The issue of policy coherence regarding food security, monetary and fiscal policies, and trade policy is addressed

Key Strategy:

- *Strengthen policy dialogue and coordination under TIPSWAp and establish specific dialogue mechanism to deal with specific/emergency issues*
- ii) The capacity for trade policy formulation, implementation and evaluation is improved

Key Strategies:

- *Enhance the profile of the Ministry of Industry & Trade through OPC to coordinate trade-related interventions across other Ministries and agencies*
- *Build the capacity of the Ministry and other trade-related institutions in especially specialised trade and investment subjects*

- iii) Trade is mainstreamed into all key Ministries, Departments and Agencies (MDAs) and coordination and information sharing is enhanced

Key Strategy:

- *Promote trade mainstreaming into sectoral plans and budgets including joint setting of priorities with Development Partners*

- iv) The capacity to domesticate International Trade Agreements and to implement international trade commitments is addressed

Key Strategy:

- *Secure (at least one) human resources with legal expertise in international trade and investment*

- v) The commercialization of agriculture for both domestic and export market is promoted

Key Strategy:

- *Promote commercial agriculture strategies/systems such as anchor farms*

4 Implementation Arrangements

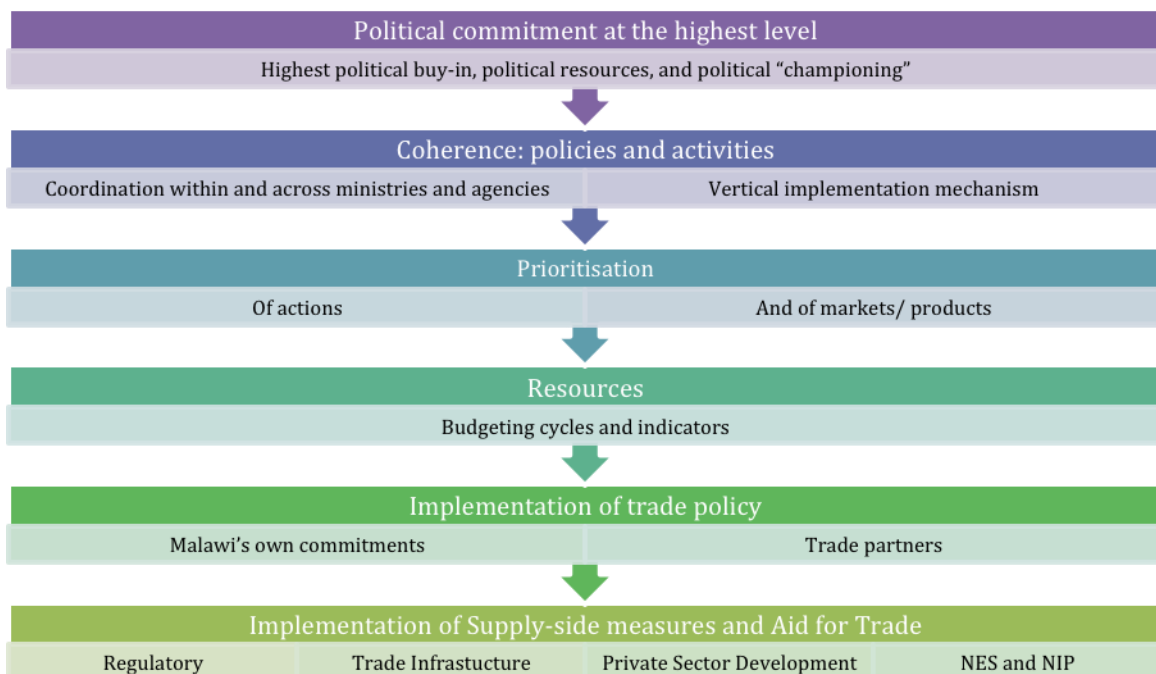
4.1 Institutional Arrangements

Trade policy implementation involves a wide range of stakeholders from government institutions, private sector, academia and civil society. They are all critical from policy development and provides a good platform for feedback in policy implementation.

The Ministry of Industry and Trade which is the lead institution for implementation of trade shall provide leadership for this policy. However, it shall endeavour to engage with all key stakeholders in the policy process and cycle. The Ministry will continue to engage with stakeholders through the National Working Group on Trade policy, the Trade, Industry, and Private Sector Development Sector-Wide Approach (TIPSWAp) implementation framework, and the Inter-Ministerial Committee on Trade.

4.2 Implementation Plan

Effective and credible implementation is critical. The key pillars for success are:



The detailed implementation plan for this policy is found in the attached document called the Implementation Plan

4.3.2 Monitoring & Evaluation

This policy is expected to be comprehensively reviewed after (5) years of implementation. The M&E framework which is contained in the Implementation Plan document attached to this policy details out the key outputs, targets and assumptions that underlie this policy.