ITC BUSINESS BRIEFING Trade Policy

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WTO Trade Policy Review: Malawi*

Note: This text provides brief description of the conditions foreign business will encounter in trade with The Kingdom of Malawi. It is based on a WTO Trade Policy Review for The Kingdom of Malawi, late April 2016. Readers wishing for deeper analysis should turn to the original Trade Policy Review available on the WTO website. (https://www.wto.org/english/tratop_e/tpr_e/tp435_e.htm).

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals.

Malawi's economy has grown strongly in most years since its last trade policy review (TPR) in 2010. While annual GDP growth rates peaked at 9.5%, the period under review also included a marked slowdown of the economy in 2012. Total merchandise trade increased rapidly during the period under review, from 60% of GDP in 2010 to 102% in 2014. Malawi is a least developed country with a largely agricultural economy; as a result, its performance remains vulnerable to adverse weather conditions and terms of trade shocks.

Despite some improvements in recent years, Malawi remains one of the world's poorest countries in terms of most development indicators. Gross national income per capita is estimated at some US$250. Annual population growth is very high and has even been increasing over the last years. The labour market is largely informal. Malawi has traditionally been highly dependent on donor support. However, during the period under review it has had an on-off relationship with many of its donors.

The cost of doing business in Malawi remains very high, due to significant challenges related to transport, communication, energy, and administrative barriers. This impacts on Malawi's competitiveness in international markets as well as its ability to attract meaningful foreign direct investment, in spite of an investment regime that is generally open. Malawi's fiscal situation has continued to face challenges during the review period. Public debt has strongly increased which partly reflects recourse to domestic financing in the wake of external financing shortfalls arising from the suspension of external budget support.

** Extracted from WTO Secretariat Report on Trade Policy Review: Malawi*

The main objective of monetary policy is to achieve price stability. Until 2012, the Malawi kwacha was pegged to the US dollar, but strong overvaluation led to a parallel market with significant departures from the official exchange rate. This contributed to chronic shortage of foreign exchange and imported inputs, low international competitiveness, and a high cost of doing business. In May 2012, the Government adopted a floating exchange rate regime. This was accompanied by a strong devaluation of the kwacha, a recovery of foreign reserves, and a surge in inflation which peaked at over 28% in 2013. Since then, inflation rates have followed a slow downward trend, but surged again to attain 26% in December 2015.

During the period under review, Malawi's current account deficit increased steadily, mostly because of a strong increase in merchandise imports, while export growth could not keep pace. The deficit has largely been financed by FDI inflows and current transfers. Transfers consist to a large extent of official development assistance flows, while remittances only play a limited role.

Agricultural exports continue to dominate, but their share has been falling. Tobacco has remained by far the most important export commodity, although its share fell from 67% in 2008 to 47% in 2014. Other goods that have continued to be of relevance for export include tea, sugar, and uranium. Imports are largely dominated by manufactures. Malawi exports the bulk of its products to other African countries and the EU, while imports are mainly sourced from South Africa, Mozambique, India, the EU and China.

The Malawi Growth and Development Strategy 2011-16 is the overarching medium-term development strategy. Its main objective is to continue reducing poverty through sustainable, private-sector driven economic growth and infrastructure development. The Government recognizes that its success will largely depend on sound macroeconomic management and a stable political environment in order to attract investment and finance the state budget.

During the period under review, Malawi launched several trade facilitation initiatives, including the opening of one-stop border posts, enhancement of the COMESA Simplified Trade Regime, the adoption of a national single window programme, and migration from its current Automated System for Customs Data (ASYCUDA++) to the web-based version ASYCUDA World. However, the submission of customs declarations in hard copy remains the norm. Malawi has not yet ratified the Agreement on Trade Facilitation and has not notified its Category A commitments to the WTO. According to the authorities, the relevant technical work has been completed and the ratification process is in its final stage.

Malawi maintains preferences under bilateral trade agreements with Mozambique, the Republic of South Africa, and Zimbabwe, as well as a customs agreement with Botswana that dates from the colonial period; bilateral preferences have largely been matched by those granted in the context of COMESA and SADC. Whenever there is an overlap in terms of trading partners and tariff concessions, importers may choose which certificate of origin to obtain, depending on the terms they identify as more advantageous. Malawi also maintains rules of origin for non- preferential purposes, although its notification to the WTO indicates otherwise.

Malawi has bound 31.6% of its tariff lines at ad valorem rates ranging from 20% to 125%; by and large, it retains considerable flexibility for autonomous tariff increases. On six tariff lines, Malawi's applied rates exceed the corresponding bound levels by 75 percentage points; the authorities have indicated their intention to address these breaches in the budgetary deliberations for FY 2016-17.

The simple average applied MFN tariff in FY 2015-16 is 12.7%, down from 13.1% in FY 2009-10. The tariff comprises eight bands: zero, 5%, 7.5%, 10%, 15%, 20%, 25%, and 200%, against six bands (zero, 5%, 7.5%, 10%, 20%, and 25%) in FY 2009-10. Malawi applies no tariff quotas. Agriculture remains the most tariff-protected sector: the average applied tariff on agricultural products (WTO definition) is 18.8% (up from 17.3% in 2009), whereas the corresponding average for non-agricultural products stands at 11.6% (down from 12.5% in 2009).

Malawi maintains licensing requirements and a system of trade permits for the importation and exportation of certain goods; permits typically specify the total quantity and value of a particular product that can be traded. In June 2013, the number of items controlled on exportation was reduced from 25 to 10. The importation or exportation of certain goods, such as agricultural products, requires both a trade permit and a licence. The submission and processing of applications for permits and licences remains non-computerized and must be carried out in the capital, Lilongwe.

Malawi has not taken any anti-dumping actions during the period under review; it has yet to establish an authority competent to conduct anti-dumping investigations. Malawi also lacks the legal and institutional frameworks for the application of countervailing measures and safeguards.

Malawi should gain a lot from a simplification of import procedures relating to standards and technical regulations. The Malawi Bureau of Standards (MBS) retains sole responsibility for the testing and certification of goods and services subject to technical regulations; it carries out periodic inspections on the domestic market and, under the so-called Import Quality Monitoring Scheme (IQMS), the compulsory testing of all consignments of such goods entering Malawi. Malawi does not recognize certificates and test reports from certification bodies accredited overseas, including those from the SADC/COMESA region. Owing to a lack of international accreditation of its facilities, the certificates and test reports issued by the MBS under its Export Quality Certification Scheme are generally not accepted in foreign markets.

There has been little change to Malawi's SPS regime during the period under review; the legislation in force remains outdated and a range of capacity weaknesses are yet to be addressed. One notification was made to the WTO SPS Committee during the review period. While a general import ban on genetically modified organisms (GMOs) remains in place, authorizations for experimental purposes have been granted on two occasions.

The registration and customs clearance procedures for exports are similar to those for imports; in addition, exports require a currency declaration. Malawi levies a tax of 50% on exports of wood in a rough state; the stated purpose of this tax is to encourage local value addition. During the period under review Malawi maintained export prohibitions on certain goods, including maize and maize products, and raw hardwood timber. Malawi's exports benefit from unilateral preferences in major export markets.

As regards export support and promotion, Malawi has created the Malawi Investment and Trade Centre, and set up an Export Development Fund, which has so far been predominantly active in the provision of trade finance. On the domestic market, agro-processing and electricity generation, transmission and distribution have been designated as priority industries and have been granted fiscal incentives.

State involvement remains prevalent in many sectors of the Malawian economy and, in some cases, continues to crowd out private entrepreneurs. Besides soft budget constraints, some SOEs have benefitted from tax concessions on the acquisition of motor vehicles, equipment and machinery, as well as from preferential access to land. During the period under review, Malawi revisited its privatization programme with a view to prioritizing public-private partnerships as a means of attracting strategic investors. Nevertheless, progress on privatization has apparently been slow.

There have been no changes to the intellectual property (IP) regime in Malawi during the period under review. The authorities have drafted an IP policy that should guide the review of outdated laws with a view to integrating the IP system into government development strategies. Implementation of the IP policy faces a number of challenges, including lack of human resources and finance; inadequate infrastructure for managing and administering IPRs; absence of IPR- related training and educational institutions and services; and lack of awareness among major stakeholders.

Agriculture continues to play a central role in the Malawian economy; it contributes around 30% to GDP and 75% to export earnings. However, sectoral GDP shares have gradually shifted away from agriculture while mining and various service subsectors have increased their contribution. Maize is the country's staple food. Food security is the main policy objective for the agriculture sector, and a programme that provides subsidized fertilizer to maize farmers is the main instrument to achieve this. The fisheries sector is important as a source of employment, food, and biodiversity. Deforestation continues at very high rates.

The mining sector contributes about 5% to GDP. The bulk of fuel is imported. Malawi's manufacturing sector is relatively small, with agro-processing being the dominant activity. Less than 10% of Malawi's population has access to electricity. Electricity prices remain under government control and, despite some recent price increases, remain amongst the lowest in the world, which strongly discourages investment in the sector. The shortfall in electricity supply has been recognized as a major growth constraint, and a factor in deterring investors and weakening the competitiveness of local industries.

Services constitute about half of GDP. Malawi has made only a few commitments under the GATS. The services balance has traditionally posted a deficit. Malawi undertook a number of financial services sector reforms during the period under review with a view to increasing financial inclusion. The telecom sector has grown strongly since the last review, mainly driven by mobile subscriptions. Road transport remains the dominant mode of transport, and transport prices remain high. Privatization and partial liberalization of air transport services have led to increased competition and lower prices on regional routes. The tourism industry is still in its infancy, but offers great potential for development both as a foreign exchange earner and for the provision of employment.

As a landlocked country, Malawi depends heavily on the efficiency of transit corridors and ports in neighbouring countries. Although some progress has been achieved over the past six years, the corridors still lack efficiency. Transport time to the nearest maritime port is usually still several days. This increases the cost of trading and also limits the range of exportable products, effectively excluding most types of perishables.