



TRADE POLICY REVIEW

REPORT BY

MALAWI

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 Malawi is attached.

Contents

| | |
|--|-----------|
| 1 INTRODUCTION | 3 |
| 2 ECONOMIC ENVIRONMENT (2010 – 2015) | 3 |
| 2.1 Governance | 3 |
| 2.2 Macroeconomic Developments..... | 4 |
| 2.3 Sectoral Performance | 5 |
| 2.3.1 Agriculture..... | 5 |
| 2.3.2 Manufacturing | 6 |
| 2.3.3 Forestry | 7 |
| 2.3.4 Mining..... | 7 |
| 2.3.5 Services | 8 |
| 3 TRADE DEVELOPMENTS AND POLICY..... | 11 |
| 3.1 Trade Policy Objectives | 11 |
| 3.2 Trade Policy Formulation and Coordination Framework..... | 12 |
| 3.3 Competition and Fair Trading | 12 |
| 3.4 Domestic Laws and Regulations Governing Trade | 12 |
| 3.5 Bilateral Trade Agreements..... | 13 |
| 3.6 Regional Trade Arrangements..... | 13 |
| 3.6.1 COMESA..... | 13 |
| 3.6.2 SADC..... | 13 |
| 3.6.3 SADC-EAC-COMESA Tripartite Framework | 13 |
| 4 INVESTMENT MEASURES | 14 |
| 5 MALAWI AND THE MULTILATERAL TRADING SYSTEM | 14 |
| 5.1 Implementation of WTO Agreements | 14 |
| 5.2 Implications of Other Trading Arrangements on Malawi | 15 |
| 5.2.1 Economic Partnership Agreements..... | 15 |
| 5.2.2 Generalized System of Preferences..... | 15 |
| 5.2.3 South-South Cooperation..... | 15 |
| 5.2.4 Aid for Trade..... | 16 |
| 6 CONCLUSION..... | 16 |

1 INTRODUCTION

1.1. Malawi is situated in Southern Africa, surrounded by Mozambique in the south and 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 2008 population census, currently the country has a projected population of about 16 million, with about 80% of the population residing in rural areas and the rest living in urban areas. Malawi's economy is dependent on agriculture and exports of primary commodities.

1.2. The overriding goal of the Malawi government has been to provide a coherent and consistent economic framework that underpins the developmental objectives outlined in the Malawi Growth and Development Strategy II (MGDS II). Malawi's economic policies continue to be aimed at reducing poverty through sustainable economic growth and infrastructure development as espoused in the MGDS II.

1.3. To achieve sustainable levels of economic growth, Malawi requires strong macroeconomic management accompanied by both private and public investment in infrastructure and productive real sectors that improve productivity to address supply-side constraints identified in the areas of energy supply, and (cross-border) transport and trade facilitation. To undertake this, Malawi requires external support through grants and highly concessional financial assistance as well as prudentially crafted fiscal and monetary policies.

1.4. As a Member of the WTO the country participates in the Trade Policy Review Mechanism (TPRM) with a view to achieve greater transparency and understanding of its trade policies and practices and to ensure improved adherence to rules, disciplines and commitments made under the WTO Agreements. The third Trade Policy Review (TPR) for Malawi follows the second (2010) TPR.

1.5. Since the last Trade Policy Review in 2010, Malawi has continued to participate in the multilateral trading system through participation in: domestic trade police reforms to align to international trade best practices; the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the African Caribbean and Pacific-European Union (ACP-EU) Economic Partnership Agreement (EPA) negotiations and the World Trade Organization (WTO) Doha Development Agenda (DDA).

2 ECONOMIC ENVIRONMENT (2010 – 2015)

2.1 Governance

2.1. Malawi continues to enjoy a stable and democratic government. Since the end of the one party regime in 1993, it has organized five peaceful presidential and parliamentary elections, one of which was a tripartite including local government election. Current president Prof. Arthur Peter Mutharika is in his first five-year term which started in 2014. The next elections are due in 2019.

2.2. In line with the country's long-term development strategy, Vision 2020, His Excellency, Professor Peter Mutharika in 2014 established the Public Service Reform Commission (PSRC) chaired by the Vice President, Dr Saulos Chilima. The aim of the Public Service Reform Commission is to facilitate the creation of an effective and efficient Public Service that will spur economic growth through the nurturing of a market economy that is friendly to foreign direct investment and thereby facilitating long-term investments in various sectors including health, education and other social programmes. The Public Service Reform Commission recognizes that a transformed public service spurs economic growth and creates more jobs and businesses for Malawians.

2.3. In the Public Service Reforms Programme, His Excellency the President is calling Cabinet Ministers, the Public Service and all Malawians to support efforts to transform the country's public service so that Vision 2020 of transforming Malawi to a middle-income country is met.

2.4. The PSRC has made several recommendations to various ministries, department and agencies (MDAs) on likely reform areas, including provision of uninterrupted services, right-sizing the civil service, prudent utilization of public resources, strengthening greenbelt initiative,

provision of a conducive work environment, among others. Various Ministries and Departments have already been tasked to produce reform outcome areas and their Key Performance Indicators (KPIs) to be achieved over an initial 12-month period. The Ministers responsible will make public commitments on their expected achievements during the designated period. At the end of the implementation period MDAs will be assessed, and their performance rating announced to the public, in order of level of performance.

2.5. In the same vein, in order to improve on Transparency International's Corruption Perception Index, the Government of Malawi has put in place a number of mechanisms and initiatives to help in the fight against corruption. The major one being the National Anti-Corruption Strategy which is a national document that consolidates multi-sectoral efforts to fight and prevent corruption in Malawi as one way of supporting the achievement of goals as outlined in the MGDS.

2.6. The main focus of the Strategy is the collective action against corruption and is intended to achieve three broad objectives: to promote integrity, transparency and improve service delivery in all sectors; to promote public involvement in the fight against corruption; and to intensify prevention of corruption and promotion of integrity in all sectors. The Strategy has eight pillars that are implementing various anti-corruption initiatives and involves the public as the bedrock for supporting the country's anti-corruption efforts. These pillars are the Executive, the Judiciary, the Legislature, the civil society, the media, the private sector, traditional leaders and faith based organisations.

2.7. The Anti-Corruption Bureau (ACB) is the agency that is spearheading the implementation of the Strategy. Besides taking the lead in the implementation of the Strategy, the ACB continues to fulfil its mandate of preventing corruption; educating the public on the dangers of corruption; investigation of alleged or suspected corruption offences; and prosecution of alleged or suspected corruption offences. The Government set out its medium-term objectives in the MGDS that were adopted in 2006. One of the underlying and fundamental objectives of the Strategy is to transform the country from a predominantly importing and consuming nation to a predominantly producing and exporting one.

2.2 Macroeconomic Developments

2.8. Malawi has achieved positive growth during the period under review (2009-2015). GDP at market prices stood at about US\$4.3 billion in 2014. Annual GDP growth averaged 5.9% between 2009 and 2015, which included a marked slowdown in 2012. The agriculture sector remains the mainstay of Malawi's economy in terms of contribution to employment and foreign exchange. Tobacco is the prime cash crop and most important cash commodity, although its importance has declined over the past years. Other important commodities include maize (the country's staple food), rice, tea, sugar, and cotton. In recent years, Malawi has managed to attain self-sufficiency in food. However, regular adverse weather conditions and unstable commodity prices have posed challenges to food security and the growth of the agriculture sector.

2.9. Real gross domestic product (GDP) grew by 1.9% in 2012, 5.2% in 2013, and an estimated 4.7% in 2014. Growth in 2014 was primarily driven by growth of the agricultural, information and communication, and wholesale and retail trade sectors. Projections for 2015 indicate slowed growth to slightly below 5%. In the 2014-15 season Malawi was hit by floods and drought which affected crop production.

2.10. Malawi Government is committed to pursuing the goals outlined in the Malawi Growth and Development Strategy (MGDS II). In line with this, the Government projects that real GDP growth rate for the next three years will average around 5.5% by 2018, while inflation is projected to reduce to an annual average of 9% by 2018 from a projected 17.3% in 2016. The Government is in the process of reviewing the medium-term strategy, MGDS II for a period 2016-2020. MGDS III will continue its main objective of reducing poverty to be achieved through sustainable private-sector driven economic growth and infrastructure development. The Strategy's macro-economic objectives include reducing inflation to single-digit levels, increasing foreign exchange reserves to at least three months import cover, and improving the investment climate

2.11. The Government continues to run a fiscal deficit estimated at 5.9% in 2014-15 and is expected to remain as such in FY2015-16. The economy continues to operate in a difficult fiscal

environment characterized by a large budget deficit compounded by an accumulation of arrears and rising debt service costs. Expenditures are currently 29.9% of GDP and are expected to hover around the same rate for the next three years with an upward marginal error of 2%. In order to ensure sound fiscal governance, the Government has put in place a number of measures aimed at tightening security and accountability surrounding the Government financial and accounting system, the IFMS. Furthermore the RBM in an effort to contain volatility in exchange rates embarked on initiatives aimed at tightening the monetary policy and increase exports through the Export Development Fund facility.

2.12. On the revenue side, revenues are currently at 23% of GDP and are expected to grow between 1% and 1.5% of GDP over the next three years. In order to achieve this, the Government of Malawi has committed to a broad-based tax reform with the aim of creating a simple, efficient, transparent and fair tax system. Such a system is expected to generate more revenues in an investor-friendly manner. It is also expected to streamline tax incentives and largely do away with tax exemptions due to their excessive distortionary effects.

2.13. However, the Government has embarked on serious reform programmes to restore public and donor confidence. Advances have been made in fixing security gaps in public financial management (PFM) that were identified during "cashgate." The Electronic Fund Transfer (EFT) has been successfully used for payment of salaries of all civil servants and the risk assessment for using the EFT has been done. There is also an improvement in the submission of consolidated financial statements to the Auditor General for auditing. Electronic Fiscal Devices (EFDs) systems were also introduced to enhance VAT and tax collection.

2.14. During the period under review, Malawi continued to pursue prudent fiscal policies with the principal objective of reducing net domestic debt and creating a sustained increase in critical expenditures. This led to consolidated fiscal discipline evidenced by reduction of non-priority expenditures, directing more resources to priority areas and prudent budget execution.

2.3 Sectoral Performance

2.3.1 Agriculture

2.15. The agricultural sector continues to be the major source of economic growth and remains the main sector in which the poor play a significant role. The agricultural sector contributes 36% to 39% of GDP annually, of which the smallholder sector contributes 27%. In addition, agriculture accounts for 80% of total employment and supplies more than 65% of the manufacturing sector's raw material requirements. It also accounts for over 90% of export earnings. It is, therefore, expected that agriculture will continue to play a significant role in Malawi's economy. Given its role as a key input for domestic manufacturing, this is likely to remain the case even as Malawi diversifies its structure of production into manufacturing.

2.16. There has been mixed agricultural performance in the period under review (2010 – 2015) with an average agricultural growth rate of 4.2% per annum. Meanwhile Government has reaffirmed its commitment to the agriculture sector. It is seen as one of the cornerstones of its development policy and, therefore, an estimated 18% of the national budget is currently allocated to the agriculture sector. It is anticipated that the improved performance of the agriculture sector has great potential of driving national economy to greater heights.

2.17. The Agriculture Sector Wide Approach (ASWAp) programme was developed to address these concerns. The ASWAp is an overarching sectoral programme of prioritised investments geared at strengthening agricultural production and productivity. It also aims to promote agricultural diversification by increased production of food crops other than maize including: beans; groundnuts; soya beans; pigeon peas; horticultural crops; as well as small-scale livestock and fisheries related to the comparative advantages of each agro-ecological zone. The approach is comprehensive as it embodies strategies for addressing market and institutional failures created by some of the reform programmes.

2.18. In addition to the ASWAp the Malawi Government is implementing various policies including: the Agricultural Policy; Food Security Policy; Nutrition Policy; Fertiliser Policy and Strategy;

Contract Farming Strategy; Cotton Act, Policy and Strategy; and the Comprehensive Agricultural Marketing Development Systems Strategy.

2.19. The policy on Livestock Development in Malawi developed in 2006 emphasizes enhancing livestock production and productivity and disease control and is currently being implemented. The main objective is to increase availability of quality livestock and livestock products by promoting local production through enhancement of quality service delivery.

2.20. To further ensure sustainable food security in the country, the Malawi Government is implementing the Greenbelt Initiative (aimed at increasing production and productivity through irrigation intensification); Agriculture Development-Support Programme (ADP-SP) (which is aimed at improving effectiveness of investments aimed at food security and sustainable agricultural growth); Dairy Development Project; Irrigation, Rural Livelihoods and Agricultural Development Project (IRLADP); the Farm Income Diversification Project (FIDP) and the Farm Input Subsidy Programme (FISP).

2.21. The Government of Malawi has adopted and implemented many reforms within the agricultural sector. These reforms include: (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, and 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 to improve efficiency and competitiveness in the sector.

2.22. Despite the reforms, serious challenges remain in addressing all the constraints faced in agricultural production, marketing, and distribution and in the diversification into non-traditional agricultural exports. These challenges are linked to inadequate producer incentives, access to credit, and rural infrastructure, including feeder roads to allow private sector involvement in marketing inputs and outputs. In view of these, the Malawi Government has continuously been reviewing its policies, strategies and action plans to overcome these challenges. Such reviews have, among other things, led to the implementation of both short-term and long-term development projects and programmes aimed at enhancing growth in the sector.

2.3.2 Manufacturing

2.23. Manufacturing is one of the strategic sectors, as stipulated in the National Export Strategy, whose contribution to the country's GDP at 9.5% is considered low to achieve desired economic growth rate and poverty reduction levels as compared to other countries in the COMESA Region. NES has identified for promotion priority sectors including: plastics and packaging; beverages; agro-processing; sugar and assembly industries. Government is also promoting local production of engineering materials, leather products, chemicals and fertilizers cement and farm implements, among others, in order to substitute for huge imports

2.24. The low contribution of manufacturing into Malawi's GDP is due to the limited investments attracted in the sector over the past few decades. As the country aims at promoting private sector development and industrialization in order to become self-sufficient and reduce its reliance on donor support, it is imperative for Malawi to become a competitive destination for both domestic and foreign investment through, *inter alia*, the provision of a business friendly and enabling environment and strategic incentives for investments in the potential productive sectors.

2.25. To increase the sector's contribution to 20% of the country's GDP the Ministry is currently working on a number of interventions including establishment of Special Economic Zones (SEZs), a concept that allows a mix of activities, not only including manufacturing but also services. Unlike the EPZ, SEZs produce for the domestic market as well as exports. SEZs offer a combination of world-class infrastructure and expedited customs and administrative procedures that overcome barriers to investment in the wider economy. SEZs are capable of contributing to export development, not only in terms of accelerating export growth, but also in terms of export diversification.

2.26. Removal of VAT on raw materials is another intervention in the sector. One of the major challenges the manufacturing sector currently faces is payment of VAT on imported raw materials. The Ministry of Industry and Trade is currently working with Ministry of Finance, Economic Planning and Development and the MRA to start the process of removing VAT on raw materials and it will be done in phases. The Ministry believes that this intervention will have a positive impact on both employment and contribution to GDP as manufacturing companies are expected to expand their operations.

2.27. Review and development of industrial incentives is another intervention aimed at promoting manufacturing sector. The Ministry is working on a comprehensive review of the existing investment and export incentives and proposed strategic incentives that could attract investment and develop exports in the country. This will include the review the existing investment, production and export incentive schemes (including Industrial Rebate Scheme) to determine their effectiveness, administration and management by the Government of Malawi. Determine the benefits of the current incentives to the industries and companies that are currently using them. It will assess the weaknesses of the current tax incentives in boosting industrialisation sectoral development and export growth and development and propose productive industrial sectors of the economy that require progressive incentives based on the outcome of the sector analysis above.

2.28. In addition, the Government recognises that the small- and medium-enterprise (SME) sector is an important contributor to manufacturing. In this regard measures have been initiated to facilitate value addition by SMEs to Malawi's products, in addition to making the SMEs competitive. This is also in view of the fact that the Malawi economy is basically characterised by grass root SMEs that make up nearly 90% of the total number of enterprises, hence the need to increase their productivity.

2.29. However, the major constraints in the manufacturing sector include: the state of infrastructure; influx of cheap imports; high transportation costs; inadequate water and energy supply in rural areas; and industrial capacity in order to comply with international measures of standards. At present the Malawi Bureau of Standards has applied for accreditation under the Southern African Development Community Accreditation Service (SADCAS).

2.3.3 Forestry

2.30. Forest resources in Malawi cover an estimated 27% of the 9.4 million hectares of land. About 11% of this area is in National Parks and Wildlife Reserves, 10% is in Forest Reserves and 7% is on customary land. Plantation forests constitute about 1% of the total land area under forest cover.

2.31. Forestry remains the main source of energy. Biomass satisfies about 83.4% of household energy demand with electricity providing the remaining 16.6%. This, therefore, leaves the country reliant on wood fuels. Thus, there is need to diversify sources of energy so as to reduce pressure on the need for firewood in future.

2.32. The country, however, continues to suffer from forest degradation largely because of poverty, population growth, agricultural expansion, infrastructure development and overdependence on wood fuel for energy. Over 93% of the population depends on biomass energy for heating and lighting. It is estimated that forest resources are declining at a very alarming rate of 2.6% per annum mainly due to deforestation.

2.33. The Department of Forestry has embarked on various afforestation, forestry conservation and management programmes with all relevant stakeholders towards enhancing sustainable forestry sector development in the country, including deployment of security in protected areas, intensifying annual afforestation campaigns, community-based forest management services.

2.3.4 Mining

2.34. The MGDS identifies the mining sector as one of the sectors that could potentially generate economic growth for the country. Mines and Minerals Policy (2013) is a logical extension of the MGDS. The country has abundant mineral resources that can be sustainably exploited to contribute to the Government's vision of transforming the country from a predominantly importing and

consuming nation into one that is predominantly producing and exporting. It is the Government's conviction that if the country's mineral resources are fully exploited, the contribution of mining will improve from the current 10% to 20% within the next 10 years.

2.35. The Government of Malawi recognizes that the minerals sector has a significant potential to contribute towards the rapid economic growth and development of the country. Currently, the sector is still very small despite its favourable geology and known mineral potential. Through the Mines and Minerals Policy, the Government seeks to stimulate and guide private mining investment by administering, regulating and facilitating the growth of the sector through a well-organized and efficient institutional framework thereby enhancing the country's attractiveness as an investment destination.

2.36. Malawi also subscribes to and needs to actively participate in and respond to global and regional initiatives such as Kimberly Process, Multilateral Investment Guarantee Agency (MIGA) and Extractive Industries Transparency Initiative (EITI) that address mineral sector issues including practice, governance and other emerging realities.

2.37. In creating a conducive environment, the Government in 2015 undertook Airborne Geological Survey throughout the country to assist prospective investors to identify potential areas for investment. The Government is also reviewing the Mines and Minerals Act to enhance mineral rights. (Mining Cadastre). Furthermore, in 2016 the Government has planned geographical remapping to easily understand types of rocks across the country for infrastructure and agricultural development, among others.

2.3.5 Services

2.38. Trade in services contributes to about 50.4% of GDP. Malawi has potential for growth in the services sector. Malawi has been participating in the services discussions at regional and multilateral level. At regional level, Malawi has further liberalized its services sectors in the areas of communication, financial, transport and tourism in order to attract FDI in the crucial sectors of the economy. A national strategy for services is driven by domestic policy priorities and grounded in the services export activity already taking place in order to support and strengthen Malawian service exporters.

2.3.5.1 Financial services

2.39. There have been significant developments in the banking (depository corporations) sector during the period under review. Overall, the financial performance of the commercial banks has been satisfactory with all banks adequately capitalized and liquid. The commercial banks, however, are still dominated by the two largest banks i.e. National Bank of Malawi and Standards Bank. Over the years, direct government control and ownership in the financial system has significantly been reduced through privatisation and public offer with Malawi Savings Bank sold and government stakes in Inde Bank on offer again.

2.40. The nonbank financial sector comprises insurance companies, pension funds, capital markets, microfinance institutions and discount houses. Pensions and microfinance are now prudentially regulated by the Reserve Bank of Malawi through the Pensions Act and Microfinance Act.

2.41. In a bid to strengthen the financial sector in general, a review of various legal frameworks has been undertaken and a number Acts were enacted by Parliament, including the Financial Services Authority Act; the Securities Act; the Microfinance Act; and the Financial Cooperative Societies Act. The Banking Act, among others.

2.3.5.2 Tourism

2.42. As highlighted in the Malawi Growth and Development Strategy (MGDS), tourism in Malawi has the potential for growth to provide income, foreign exchange earnings and employment. To contribute to economic development, the Government is aiming at establishing Malawi as a principal and leading eco-tourism destination in Africa and also to increase domestic tourism.

2.43. The sector is however faced with a number of challenges including: inadequate infrastructure; inadequate investment in the sector; inadequate financial resources for destination marketing; inadequate human resources; lack of direct flights from the major tourist source markets; and lack of good quality delivery in some of the hospitality units.

2.44. In an effort to address the challenges, the Government developed a Strategic Plan that will guide the development of the sector in the next five years (2016-2020). Implementation of the National Tourism Policy which provides an overall guide on how the sector should be developed including: improving transportation links to tourism destinations; increasing attractiveness of national parks for tourism and eco-tourism; and improving tourism marketing regionally and internationally. It recognizes that tourism is a cross-cutting sector touching on areas of transport, health and safety, environment, and telecommunication among others. The policy, therefore, recognizes this multilayer network of stakeholders and outlines the areas in which they can support the sustainable development and promotion of tourism.

2.45. The Malawi Tourism Strategy 2020 is currently used as a source of inspiration for a common vision and includes goals that can be achieved through actions implemented with cooperation between the Government of Malawi, members of the tourism industry, non-profit organizations, donor agencies, and the people of Malawi.

2.46. The Malawi Tourism Strategy 2020 suggests directions and actions to be taken by responsible stakeholders and how success will be measured in the following three strategic areas:

- a. improving the enabling environment by reducing barriers for new and operating businesses, addressing infrastructure challenges, strengthening public-private sector dialogue, and incentivizing investment;
- b. strengthening Malawi's tourism offer by building a network of regional tourism committees to address gaps in tourism products and services;
- c. grow international tourism demand for Malawi through the establishment of a public-private partnership destination marketing organization that engages in best practices to inspire visitation by high-value travellers.

2.47. The Ministry of Information, Tourism and Civic Education, through the Department of Tourism has started implementing the Malawi Tourism Strategy 2020 and some suggestions from the plan have been actionable.

2.3.5.3 Information communication technology (ICT)

2.48. The ICT sector was liberalized following the enactment of the Communications Act in 1998. This led to an increase in the number of operators as well as the separation of postal services from telecommunications.

2.49. The Malawi Communications Regulatory Authority (MACRA) was created to ensure that there is a level playing field in the sector, ensure the introduction of new services and licensing of new players. Currently there are two global system of mobile (GSM) operators (Airtel and TNM). There are also two fixed network providers (MTL and ACL). MTL, which was previously state-owned, is now in private hands with the Government retaining a 20% stake, whilst ACL is fully privately owned. There are more than fourteen active internet service providers (ISPs) operators in Malawi. The sector is now connected to the fibre optic cable. New television stations have also been rolled out adding on the business in the sector.

2.50. Growth potential for this sector remains strong as internet service providers seek to increase their customer base and mobile phone operators have large potential to increase sales of airtime units, internet subscriptions as well as consolidating new services such as mobile banking. Mobile phone companies continue to undertake major investments into infrastructure to support these services.

2.51. The ICT sector is fully liberalized in the sense that ISPs are allowed to own Very Small Aperture Terminals (VSATs) for their upstream connectivity and companies providing security

services are allowed to install private radios and paging equipment. The Government has introduced convergence licence for ICT services to ensure that providers should be free to provide a wide range of ICT services.

2.3.5.4 Transport

2.52. Malawi, being a landlocked country, depends largely on overland movement of exports and imports. Its transport network and its connections to neighbouring countries are, therefore, of utmost economic importance. Transport costs account for 55-60% of the total cost of imports and exports in Malawi.

2.53. In view of this, the Government 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. This should improve competitiveness, productivity and profitability. For instance, management and financing of the road sector has been reformed with the creation of a National Roads Authority in 1997 taking over the responsibility (from the Government) for road construction, road rehabilitation and routine maintenance activities. A Road Fund Administration was also created to ensure the availability of funding. The main source of revenue is the fuel levy collected from petrol and diesel sales.

2.54. The liberalization of market entry to allow private sector companies to be involved in the provision and operation of transport services was done in 1994, which led to the de-monopolization of the state-owned companies. In respect of this, Malawi Railways (1994) Ltd. was concessioned to Central and East African Railways Ltd in 1999. Air Malawi was privatised in 2013.

2.55. The Government has also embarked on the construction of the new multi-modal transport project, the Shire Zambezi Waterway Project and the World Inland Port at Nsanje to provide direct access to the sea, thereby reducing transport cost. Comprehensive feasibility studies are being conducted to ascertain its viability.

2.56. During the period under review construction of the railway line across Malawi into Mozambique (Nacala-Moatize) was completed and it is expected to increase the country's railway cargo volumes. The Government also intends to rehabilitate the international airports, as well as improve marine transportation on Malawi waters.

2.57. Regarding the institutional framework, the Ministry of Transport and Public Infrastructure has been restructured and its role now is primarily to establish and facilitate policies as well as to regulate the transport sector and to carry out strategic planning. The role of providing transport infrastructure is moving to the private sector.

2.3.5.5 Energy

2.58. 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.

2.59. In the period under review, the sector continued to monitor the base scenario of the Power Demand Forecast carried out in 2011. According to the study, generation requirements were estimated to increase to 829 MW in 2020 from 408 MW in 2010. The growth rates captured by the study are generally higher in the second decade due to higher long-term economic growth rates.

2.60. In an effort to meet the projected demand in the country, the Government undertook hydropower plant feasibility studies at Chasombo and Chizuma in the 2012-13 financial year. Furthermore, the Government is undertaking hydropower feasibility studies at Lower Fufu, Kholombidzo, Cimgonda and Mpatamanga sites. The studies are underway and the preliminary results show that it is both feasible and economically viable to generate hydropower from these sites. In addition to this, Kapichira Phase II was commissioned in December, 2013, adding 64MW to the national grid. Furthermore, plans are at an advanced stage to interconnect the power

system in Malawi to that of the Southern African Power Pool (SAPP) Grid to allow Malawi to participate in power trade in the region.

2.61. In a bid to restructure electricity tariffs in the country a study was commissioned to derive a tariff structure that reflects the cost of generation, transmission, distribution and other operation costs, in line with the Government's policy of restructuring the electricity industry. The tariffs that were determined are based on Long Run Marginal Cost (LRMC), ESCOM's revenue requirements and national social objectives.

2.62. The implementation of the approved tariff shall be phased and spread over four years and will be subject to ESCOM demonstrated achievements in meeting the set performance targets. The first increase of 13.5% was effected on 4 April 2014, while 18.1%, 8.9% and 1.9% will be implemented in the second year, the third year and the last year (2017) of implementation of the second base tariff, respectively.

2.63. In order to enhance rural electrification, the Malawi Rural Electrification Programme (MAREP), having been started by ESCOM in 1980 and taken over by the Government as the implementing agency in 1995, has so far registered a lot of success. The programme aims at increasing access of electricity to people in peri-urban and rural areas as part of the Government's effort to reduce poverty, transform rural economies, improve productivity and improve the quality of social services.

2.64. The Department of Energy through MAREP is implementing Village Electrification Projects by using Sola-Wind (Hybrid) Systems. The main thrust of this project is to experiment on the suitability of stand-alone renewable energy technologies for rural electrification in order to increase access to modern energy services by the rural communities. This is expected to transform the communities who are far from the national grid. The Ministry through the Department of Energy Affairs has installed various renewable energy technologies such as solar/wind hybrid system for electricity generation and water pumping. Biogas technology for cooking and construction has been completed. The renewable energy technologies have been installed at the Department of Energy Affairs offices behind Natural Resources College. The objective is to demonstrate how best and efficient the renewable energy technologies can be utilized. The centre was funded by the UNDP

2.65. In an effort to increase the reliability and quality of electricity supply in the major load centres in Malawi, the Government, with support from World Bank, started implementing the Energy Sector Support Project. The project intends to achieve this objective by strengthening the existing electricity network, performing generation and transmission feasibility studies for hydropower improvements, improving demand side management and energy efficiency measures, and building capacity of the energy sub-sector through technical assistance.

2.66. The major reform of the sector is the splitting of ESCOM into two components of power generation and power distribution being operated by two different entities. The process is expected to be completed by 2017. The restructuring will improve on power generation as investors will be encouraged to invest in power generation that will be supplied to a single power buyer (Single Market Operator) at harmonized rates for distribution to various consumers.

3 TRADE DEVELOPMENTS AND POLICY

3.1 Trade Policy Objectives

3.1. Malawi continues to maintain an open trade policy position, with relatively low tariffs and non-tariff barriers. The simple average applied MFN tariff in 2014-2015 was 12.7%, which is an improvement from 13.1% in 2009-2010. The goal of Malawi's trade policy is to create a globally competitive export-oriented economy, generating higher and sustainable livelihoods through trade that recognises the role of micro-, small- and medium-enterprises (MSMEs) and the vulnerable groups.

3.2. The policy aims to achieve this goal by driving structural transformation of the productive sector through supporting and managing domestic market structure and integration into regional and global value chains.

3.3. The policy advances the aspirations of the National Export Strategy (NES) formulated in 2013 whose objective is to bridge the gap between imports and exports through structural transformation of three priority export clusters, namely; oil seeds products cluster, sugar cane products cluster and manufacturing (agro-processing, assembly, plastics and packaging) cluster. Consequently, it targets addressing binding constraints, relating to access to markets, skills, finance, business development service, inputs etc., on the development of the productive sector.

3.2 Trade Policy Formulation and Coordination Framework

3.4. The Ministry of Industry and Trade is responsible for trade policy formulation and implementation. This is done in consultation with the private sector, academia, civil society, media and various executive institutions and organs of government that administer other trade policy measures. The Ministry has established the Trade, Industry, and Private Sector Development Sector Wide Approach (TIPSWAp) since 2013 as the main framework for implementing the NES and a consultative forum for discussing and coordinating trade policy issues. A technical working group on access to markets under the TIPSWAp is dedicated to this course. The Ministry also continues to maintain and co-chairs the Public-Private Dialogue (PPD) Forum and the National Working Group on Trade Policy (NWGTP) for consultations on more specific issues.

3.5. A draft Joint Sector Plan has been developed, with the objective of mainstreaming trade policy into sectoral policies and national budget cycles. It is to serve as a coordination and monitoring framework that would help avoid duplication and policy conflicts.

3.3 Competition and Fair Trading

3.6. The Malawi Government enacted the Competition and Fair Trading Act (CFTA) in 1998 to provide a legal framework for promoting competition and fair trading. This was in response to liberalization and deregulation of the economy which created a need for market-based regulation of economic activities.

3.7. Enforcement of the Act commenced in 2005 following the appointment of the first cohort of Board of Commissioners. Despite initial challenges in setting up the enforcement mechanism for the Act, the country now has a fully-fledged autonomous competition authority which was instituted in 2012. The Competition and Fair Trading Commission works as an independent market regulator which investigates and adjudicates over cases relating to anti-competitive and unfair trade practices. Its main function is to regulate, monitor, control and prevent acts and behaviour which have adverse effects on competition and fair trading in Malawi.

3.8. In this regard, the Commission has since its establishment resolved numerous cases relating to anti-competitive and unfair trading practices including assessment of mergers and acquisitions. This has contributed to a reduction in anti-competitive and unfair business practices and therefore improved the functioning of markets and safeguarded consumer welfare.

3.9. The Commission also plays a pivotal role in sensitising the private sector to uphold a competition culture and educating consumers to exercise their rights in their dealings with the private sector. This is being done through interface meetings with various private sector groups, the judiciary and media houses with a view to deepening understanding of the stakeholders on their obligations and rights under the Competition and Fair Trading Act. The Commission has also embraced a media campaign to reach out to various stakeholders with messages on competition and fair trading. These initiatives are being implemented to foster voluntary compliance with the Act.

3.4 Domestic Laws and Regulations Governing Trade

3.10. The Control of Goods Act is the main law that governs import and export trade in Malawi. This Act is currently being reviewed to reflect the objectives of the National Export Strategy and other national development strategies.

3.11. During the period under review, however, the Companies (Amendment) Act, the Business Licensing Act, and the Business Names Registration Act have been enacted, and the Investment and Export Promotion Bill, the Export Processing Zones Bill, and the Export Incentives Bill,

Warehouse Receipt and Commodity Exchange Bill are awaiting Parliament approval. The Trade Remedies Bill is still under draft and yet to be finalized through public consultations before it can reach the legislature.

3.5 Bilateral Trade Agreements

3.12. In the period under review, Malawi maintained bilateral trade agreements with Mozambique, South Africa and Zimbabwe, and a customs agreement with Botswana. Malawi also has an agreement on trade, investment and technical cooperation with the People's Republic of China.

3.6 Regional Trade Arrangements

3.13. Malawi continues to pursue regional integration within COMESA, SADC and the SADC-EAC-COMESA Tripartite framework. Malawi remains committed to these regional integration agreements, and continues to benefit from increased access to these regional markets. During the period under review Malawi increased market access to SADC and COMESA members on a reciprocal basis subject to respective rules of origin.

3.14. There are several opportunities as to why Malawi participates in these regional groups. Apart from market access opportunities, cooperation in the area of transport, energy and infrastructure development provides a window for the mitigation of some of the major constraints faced by a landlocked least developed economy.

3.6.1 COMESA

3.15. COMESA remains one of the key regional arrangements that Malawi continues to actively participate in. Malawi has completely liberalized its tariff under the COMESA FTA and is actively participating in the Customs Union preparatory processes. Due to supply-side constraints, Malawi has not fully utilized the market access opportunities under the FTA. This is reflected in the fact that Malawi's trade with COMESA has remained largely unchanged during the period under review.

3.16. Albeit, the regional market remains an important market for Malawi due to its landlocked status making the cost of transport a very crucial consideration. Malawi would be more competitive in regional markets provided the transport infrastructure improves.

3.17. Malawi benefits from regional integration programmes including Malawi Enterprise Productivity Enhancement (MEPE) Project and the Technical Cooperation Facility (TCF) under the EU's Regional Integration Support Programme (RISP3) funded with resources from the second phase of the 10th EDF.

3.6.2 SADC

3.18. Malawi is committed to implementing her tariff reduction commitments under the SADC Protocol on Trade. Under the Protocol, member States agreed to eliminate all tariffs on intra-SADC trade by the year 2012. Currently, Malawi has liberalized 100% of her intra-SADC trade, except with South Africa, which means that Malawi is trading with other SADC member States using reduced or zero tariffs for almost half of the products under the liberalization programme. In respect of trade with South Africa, Malawi has achieved 90% liberalization. The liberalization of the tariffs has been protracted because of the industry and revenue sensitivities that Malawi currently faces.

3.19. Malawi is also part of the SADC industrialization drive, which seeks to ensure that Member Countries export valued added products and benefit from liberalization under the SADC protocol on trade.

3.6.3 SADC-EAC-COMESA Tripartite Framework

3.20. The SADC-EAC-COMESA Tripartite FTA (TFTA) negotiations were launched in Johannesburg, South Africa in June 2011. Malawi signed the TFTA Agreement on 10 June 2015 in Sharm el-Sheik in Egypt. Malawi supports the tripartite initiative as harmonization will reduce the need to comply and implement multiple regional obligations.

3.21. Malawi's interests in the TFTA include enlargement of regional markets, increased investment and expansion of trade, addressing multiple memberships, particularly SADC and COMESA, which is currently confusing the private sector players and other government implementing agencies, the collective bargaining ("voice") power of the Tripartite Area which has over 500 million people and GDP of around US\$1.2 trillion, improved access to the sea through the Tripartite trade and transport facilitation programmes and, finally benefits from freer movement of business persons owing to the work programme in that area.

4 INVESTMENT MEASURES

4.1. During the period under review, the Government of Malawi has undertaken several reforms to improve its business environment and ranking on the Doing Business Index. Malawi ranks 141 in 2016, an improvement over 2015 ranking of 144, with a score of 51.03 better than the regional average of 49.66 albeit below all regional comparators.

4.2. Some key legislation that were passed to improve the business environment include the enactment of the Insolvency Act, the Companies (Amendment) Act, the Personal Property Security Act which has seen the establishment of a Collateral Registry, the Credit Reference Bureau Act, and the Business Registration Act, that operationalized online business registration.

4.3. The Government of Malawi has established the One-Stop-Service Centre (OSSC) through the Malawi Investment and Trade Centre (MITC), which is fully operational since September 2014 with four institutions on board – Immigration, Lands, Registrar of Companies and Malawi Revenue Authority (MRA). The regulatory schematics of the OSSC will be streamlined into the legislation so that it remains statutory. However, presently the OSSC is continuously working with the parent ministries and departments to further streamline processes and procedures.

4.4. The Government is currently reviewing the Investment and Export Promotion Act with support from DFID. The new Act is expected to give MITC more authority to undertake its business of investment and trade promotion.

4.5. To stimulate foreign investment, Malawi continues to sign Bilateral Investment Treaties (BITs). During the period under review Malawi signed a BIT with the Federal Government of Brazil and negotiated another with Mauritius.

5 MALAWI AND THE MULTILATERAL TRADING SYSTEM

5.1 Implementation of WTO Agreements

5.1. As a country which has premised its development on a trade-based economic strategy, Malawi is committed to the WTO and its ability to help create an international trade environment and rules-based system as an integral part of global economic and trade governance.

5.2. Malawi is committed to the multilateral trading systems as far as it supports the establishment of a fair and pro-development rules-based trading system, which enhances trade potential and creates sufficient policy space for continued development. Malawi therefore advocates persistently that development is intrinsic in the multilateral trading framework.

5.3. Given the geographical status of Malawi, as a Landlocked Least Developed Country, we fully endorse the objectives of the Agreement on Trade Facilitation (ATF) and have since aggressively embarked on its implementation to ensure that we fully benefit from this Agreement. The National Trade Facilitation Committee has been established. In terms of notifications to the WTO Secretariat, a draft schedule of commitment for all categories has been developed; national ratification process is underway, awaiting clearance by the Head of State before being submitted to the Secretariat. The country is already implementing some aspects of the ATF including trade portal, national single window and one-stop border post interventions are underway. It is therefore imperative that developed country partners honour the intent and spirit of this Agreement relating to technical and financial assistance.

5.4. Malawi's implementation challenge still remains. This relates to the capacity to comply with WTO notification requirements, align national laws, rules and regulations to WTO requirements and

enforce the laws and regulations, e.g. Trade Related Intellectual Property, Sanitary and Phytosanitary (SPS) Agreement, Agreement on Trade Remedies, Agreement on Technical Barriers to Trade, and comply with the Agreement on Customs Valuation and Dispute Settlement Procedures.

5.5. It is envisaged that Malawi's participation in the global trading body and capacity to implement the global rules would be improved with the establishment of a Geneva office which is at an advance stage.

5.6. Malawi has received support from DFID's Trade Advocacy Fund (TAF) in developing a trade negotiations strategy and management plan. The programme also undertook some capacity building activities which was aimed at equipping government officials with necessary negotiating skills and technical preparation for negotiations.

5.7. Also, Malawi continues to receive support from the Enhanced Integrated Framework (EIF) to address a myriad capacity challenges and help the country integrate into the world economy.

5.8. There still exist substantial capacity-building gaps due mainly to staff turnover and the current economic challenges that Malawi faces. Malawi therefore welcomes effective aid for trade supports from development partners.

5.2 Implications of Other Trading Arrangements on Malawi

5.2.1 Economic Partnership Agreements

5.9. Malawi is participating in the ACP-EU Economic Partnership Agreement (EPA) negotiations under the Eastern and Southern Africa (ESA) geographical configuration. Malawi has not yet signed the EPAs alongside Djibouti, Ethiopia, Eritrea and Sudan in the ESA region because issues of particular interest to the nation are not covered in the current interim EPAs.

5.10. The country, as an LDC, still continues to use the Everything But Arms (EBA) initiative to access the European Union (EU) market, which is part of the EU Generalized System of Preferences (GSP). However, Malawi realizes that it is a fact that global trade dynamics are changing and EPAs are no exception. The EPAs will be EC's future instrument for regulating its trade with the ACP member states and financing ACP's trade-related development programmes.

5.11. In view of the above, the country continues negotiating for a full EPA on all the outstanding issues until issues of interest to Malawi are addressed in the final EPA. Although Malawi is in ESA configuration, it would be imperative to arrange a high level bilateral forum between Malawi and the EU to afford an opportunity for elaborating in detail the country's interests and structural challenges in implementing the EPAs. To this end, the Ministry of Industry and Trade will review the country's draft market access offer in view of the recent migration of customs data from HS 07 to HS 12. Furthermore, the Cabinet is yet to give national direction on EPAs.

5.2.2 Generalized System of Preferences

5.12. Malawi's benefit from the various GSPs such as the EC Everything But Arms (EBA) initiative, the China, Canada, Japan and India initiatives for Least Developed Countries (LDCs), and AGOA, has not changed since the last review. The main reason for the low utilization of most GSP preferences is the weak productive base and business operating environment.

5.2.3 South-South Cooperation

5.13. Malawi maintains a trade, investment and technical cooperation agreement with the People's Republic of China. As such, China continues to make significant contributions towards Malawi's economy development through investments and preferential market access opportunities. China has recently expanded the product coverage for its Duty-Free-Quota-Free Market Access for Malawian products from 95% to 97%. China has also recently given US\$6 million to the Ministry of Industry and Trade for investment into value additions and institutional capacity building.

5.14. South Africa remains Malawi's major trading partner. Even though bilateral cooperation between the two countries during the period under review has slowed down, both countries continue to actively engage under the SADC and SADC-COMESA-EAC Tripartite Free Trade Area frameworks.

5.2.4 Aid for Trade

5.15. Malawi's need for Aid for Trade through programmes and projects has become more evident due to the withdrawal of direct donor budget support. Malawi as a Landlocked Least Developed Country (LLDC) faces several challenges to be integrated into the multilateral trading system. These ranges from supply-side constraints to trade facilitation issues. Malawi therefore endorses the WTO Trade Facilitation Agreement and therefore implores development partners to support its implementation.

5.16. Malawi continues to benefit from the Enhanced Integrated Framework and other Aid for Trade programmes.

6 CONCLUSION

6.1. Malawi remains committed to maintaining an increasingly open economy, the Multilateral trading system and a timely conclusion of the Doha Development Round of trade negotiations. Malawi underscores the fact that in the context of the current global economic recession, an ambitious outcome of the Doha Development Round is crucially important to create economic prosperity and growth globally. In this regard it is imperative that the Doha Development Round establishes a fair and pro-development rules-based multilateral trading system, which enhances the country's trade potential and creates sufficient policy space to facilitate continued development

6.2. As a Least Developed Country, Malawi faces supply-side infrastructure and productivity constraints and is highly susceptible to fluctuations in commodity prices. As such, Malawi is hopeful that member States and cooperating partners will assist her in addressing supply-side constraints to enable the country to take full advantage of the market access opportunities created at the multilateral level.

6.3. The Malawi Government remains committed to transforming its economy from being predominantly consuming and importing into being predominantly producing and exporting as a prerequisite for eradicating poverty. In this regard, the MGDS II, among others, aims to mainstream trade into sectoral strategies. Whilst 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 grow an economy that is better able to absorb commodity price shocks in the future.
