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MALAWI AND THE MULTILATERAL TRADING SYSTEM: THE IMPACT OF WTO AGREEMENTS, NEGOTIATIONS AND IMPLEMENTATION

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NOTE

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Acronyms

ACP	African, Caribbean and Pacific
AGOA	African Growth and Opportunity Act (United States)
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CBI	Cross-Border Initiative
DFID	Department for International Development (United Kingdom)
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EBA	Everything but Arms Initiative (EU)
EGS	Economic Growth Strategy
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
ESA	Eastern and Southern Africa
EU	European Union
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
IOC	Indian Ocean Community
IMF	International Monetary Fund
JITAP	ITC/UNCTAD/WTO Joint Integrated Technical Assistance Programme
LDC	Least Developed Country
MEGS	Malawi Economic Growth Strategy
MIPA	Malawi Investment Promotion Agency
MTPSD	Ministry of Trade and Private Sector Development
MIGA	Multilateral Investment Guarantee Agency
MFN	Most Favoured Nation
NWGTP	National Working Group on Trade Policy
ODA	Official Development Assistance
PRSP	Poverty Reduction Strategy Programme
PSI	Pre-shipment Inspection
SADC	Southern African Development Community
SACU	Southern African Customs Union
SGS	Société Générale de Surveillance
SPS	Sanitary and Phytosanitary Measures
TRIPS	Trade-Related Intellectual Property Rights
TRIMs	Trade-Related Investment Measures
WTO	World Trade Organization

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I. INTRODUCTION

Malawi is a least-developed, landlocked and highly-indebted country situated in southern-central Africa. It is flanked by Mozambique in the south-east, the United Republic of Tanzania in the north-east and Zambia in the west. Malawi covers an area of about 118,500 km^2 of which Lake Malawi, Africa's third largest lake, occupies an area of 24,240 km^2. About 80 per cent of Malawi's estimated 11 million people live in the rural areas, and over 60 per cent live below the poverty line. The HIV/AIDS pandemic is estimated to have infected 16 per cent of the adult population, and, apart from the scale of human suffering, it poses a considerable challenge to Malawi's development plans.

Since independence in 1964, Malawi has emphasized the need to maintain macroeconomic stability and promote infrastructure and estate agriculture as the main elements of its development strategy. It was believed that poverty could be tackled by means of the "trickle-down effect". However, this strategy failed to improve the socio-economic welfare of the population. Despite some growth in the 1970s, structural weaknesses persisted, the economic base remained narrow and the country continued to be vulnerable to external shocks. The shocks of the 1980s – rising oil prices, the influx of Mozambique refugees and declining tobacco prices – put pay to any growth prospects.

The structure of the Malawian economy is characterized by weak infrastructure and human resource development, a declining share in world trade, unstable export commodity prices and an external debt burden; servicing its debt ties up scarce resources. Malawi recognizes the urgent need to restructure the economy so as to respond to the challenges of globalization and reap the benefits from trade liberalization under the evolving multilateral trading system. This can be achieved by formulating and implementing a comprehensive policy framework that provides an enabling environment for both domestic and foreign investment, accelerating public sector reforms, maintaining macroeconomic stability, strengthening transport and communications networks, promoting domestic savings and fostering entrepreneurship and private sector development, among others.

Malawi has implemented a series of broad macroeconomic and structural reforms since the mid-1980s; in these efforts it was supported by substantial financial and technical assistance from the International Monetary Fund (IMF), the World Bank and other donors. Poverty reduction, growth and export-oriented production are central to the Government's economic reform. The reforms seek to liberalize trade and agriculture and promote development through growth of the private sector. However, despite implementation of structural adjustment programmes, the economy has remained fragile, with a narrow base and a lack of the necessary infrastructure for delivery of basic social services. After more than a decade of stabilization and adjustment, the structure of the economy continues to be dominated by the production, processing and distribution of a limited number of agricultural crops, notably tobacco, tea, sugar, coffee, cotton and – the main staple, maize.

II. OVERVIEW OF THE MALAWIAN ECONOMY

II.1. Macroeconomic performance

Malawi has experienced marked unevenness in its year-to-year sectoral performance. Adverse weather conditions have been responsible for poor agricultural performance, which is largely responsible for swings in economic growth. Manufacturing has remained stagnant, and high interest rates and inflation as well as a fluctuating exchange rate have created a climate of uncertainty concerning returns on private sector investment. Economic liberalization has resulted in an influx of cheap, imported goods, thereby eroding domestic manufacturers' market share of consumer goods.

The national budget depends heavily on donor support. Since about 40 per cent of the budget is financed by foreign aid, revenue projections are affected by variations in assistance levels, which are subject to donor decisions. The country is burdened by a high foreign debt, which amounted to two-and-a-half times its total output over the period 1995-2002.

Malawi's economic problems have been partly due to inappropriate stabilization policies, especially expansionary fiscal measures and heavy government borrowing, which have led to unsustainable budget deficits. Despite efforts to reduce the fiscal deficit, public expenditures have substantially outpaced revenue growth. Fiscal discipline has been impaired by a lack of budgetary discipline.

II.2. Agricultural sector

Agriculture remains the dominant sector in Malawi. It is characterized by a dual structure, consisting of commercial estates on the one hand, and a large number of smallholders engaged in mixed, subsistence and cash-crop agriculture on the other. The share of agriculture in GDP has levelled off in recent years, at 35-39 per cent of GDP. The sector employs about 85 per cent of the labour force and accounts for over 80 per cent of earnings. As Malawi is one of the most densely populated countries in the world with an average of about 180 persons per km^2 of arable land, the pressure on such land is significant. The sector is thus experiencing difficulty in generating sufficient income and employment opportunities for a rapidly growing labour force, while the formal sector can absorb only about 25 per cent of the growth in the number of job-seekers. Forestry and fisheries are classified under agriculture, but these subsectors represent less than 0.02 per cent of GDP.

The Government's current Economic Growth Strategy envisages rapid growth in the priority areas of tobacco, tea, sugar and cotton to provide agro-processing industries with raw material inputs. Through increased private initiatives, the goals of the strategy are to:

(a) Forge stronger economic linkages in commodity value-chains, promote better quality imports following liberalization of the economy, upgrade labour skills and address high taxes and low domestic demand.

(b) Diversify agricultural production over time through production of key crops and related agro-processing.

(c) Increase smallholder productivity to boost incomes.

Commercialization, export orientation and enhancement of supporting infrastructure (e.g. rural access roads, power supply, irrigation and warehouses) form an integral part of the agricultural strategy, with irrigation receiving special attention. The strategy recognizes that to realize benefits from economic and trade liberalization, Malawi will need to step up production of those commodities in which it has a competitive edge and which have strong potential for export growth (e.g. cotton, cassava, pigeon peas, groundnuts, beans, rice, dairy products and soya).

II.3. Manufacturing sector

Compared to its major trading partners in the region, Malawi's industrial performance has been dismal, due largely to an inadequate infrastructure, unreliable utilities, the high cost of imported inputs caused by successive devaluations, an unstable economic environment, lack of marketing or technical capacity, weak market links and difficulties accessing financing.

Malawi's manufacturing sector remains relatively small and underdeveloped. The sector's share of GDP has been declining steadily and has fallen from 17 per cent in 1994 to 11.6 per cent in 2001 and to 10.9 per cent in 2004. This is cause for concern in terms of the long-term prospects for the economy. Manufacturing is dominated by beverages (29 per cent) and foodstuffs/agro-processing (23 per cent) and pharmaceuticals/detergents (11 per cent), which further emphasizes the importance of agriculture for the economy. Other activities are in chemicals, fabricated metal products, non-metal mineral products, paper and paper products and textiles, which together account for only about 10 per cent of export earnings. Manufacturing is highly concentrated in a few monopolies, and is generally highly import-dependent.

The decline in the share of manufacturing in GDP reflects macroeconomic imbalances/instability and policies that are not conducive to investment in the sector, as well as the influx of cheaper and better quality imports following liberalization of the economy. Other inhibiting factors include low labour skills, high taxes and low domestic demand. The input/output orientation of manufacturing implies that domestic integration is weak, and inter-industry linkages within manufacturing and between manufacturing and the other sectors are poor. The linkages between manufacturing and the primary sector are limited by the narrow product range and underdevelopment of agriculture and mining. The entire manufacturing sector is therefore very vulnerable, given that processing and export of agro-based food products depend heavily on the performance of domestic agriculture for inputs, a sector that is affected by uncertain weather conditions. Over 90 per cent of firms rely on domestic demand.

The textiles and garments industry, which has the potential to exploit the benefits offered by the African Growth and Opportunity Act (AGOA), is declining and has low capacity utilization. Even though garment manufacturing firms have been the main beneficiaries of the export processing zones (EPZs), they have failed to attract new investments. Garment manufacturers in the country face high production costs (largely due to high interest rates and freight costs), which adversely affects their export competitiveness. Further, the garments industry was adversely affected by the revocation of arrangements under the Malawi-South Africa trade agreement, which put a stop to Malawi garment exports and led to the closure of some factories.

II.4. Services sector

Malawi exports various services; the most important services are transportation and tourism, but there are also others with high growth potential: legal, accounting, audit and bookkeeping, architectural, engineering, medical and dental, veterinary, nursing, computer and related services, medical research, management consulting, peacekeeping, telecommunications, construction and related engineering services. However, their export is impeded by regulatory controls in different markets. Comprehensive data on them has not yet been published, except for tourism. The services sector constitutes about half of Malawi's GDP. Its share of GDP fell from 57 per cent in 1994 to 51 per cent in 1996 and to 50 per cent in 2004. Most of the growth in this sector has occurred in financial and professional services, distribution and transport and communications. Malawi has consistently experienced a deficit in its services trade, mainly due to high freight costs.

Malawi's financial sector is relatively unsophisticated. The range of financial products is limited by the country's low savings base. There are few financial instruments with maturities in excess of one year owing to the absence of secondary markets and intermediaries to ensure liquidity. Yields of shorter-term financial instruments are largely determined by the Government of Malawi's borrowing requirements, with the commercial banking sector holding a large proportion of the financial sector's assets. More risky corporate long- and short-term paper or investment instruments have yet to be introduced, although there has been limited use of debentures and income notes by the private sector.

The establishment of the Malawi Stock Exchange (MSE) in 1996 was an important development in the Malawi capital market and eight companies are currently listed. These are mostly the result of privatization of State-run companies. National regulations limit foreign investment in any listed company to 40 per cent, and 10 per cent if it is an individual foreign investor.

Transportation

As a landlocked country, Malawi is dependent on the overland transport of its imports and exports. The internal transport network and its connections with those of neighbouring countries are thus critical to its economic performance and to Malawi's ability to compete successfully in regional and international markets. Over the years, the sector has been characterized by high transport costs due to institutional weaknesses, restrictive policies and regulations, and a poorly maintained and inadequate road network. This latter factor is particularly critical in rural areas,