Malawi Trade Brief

Trade Policy

Reforms introduced by Malawi since the late 1980s have substantially liberalized trade but its MFN Tariff Trade Restrictiveness Index (TTRI)[1] of 20.5 percent remains above both the averages for its Sub-Saharan Africa (SSA) (11.3 percent) and low-income group (11.6 percent) comparators. Based on the MFN TTRI, Malawi ranks 124th out of 125 countries (where 1st is least restrictive). Trade barriers against non-agricultural imports (at 21.9 percent) are higher than against agricultural imports (14.4 percent). The country has three non-zero tariff bands and has an average MFN applied tariff of 13 percent, a significant decline from the mid-1990s when it was well over 20 percent. The maximum MFN applied tariff, excluding alcohol and tobacco, is 25 percent. The country's trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), is 65.8 percent. Regarding its commitment to liberalizing services trade, Malawi ranks 79th (out of 148) on the GATS Commitments Index.

To address the food crisis in 2008, Malawi banned maize exports except for residual contract amounts for Zimbabwe. The government also announced a ban on the private trading of maize, making the Agriculture Development and Marketing Corporation (ADMARC) the sole trader in the country. Given the good harvest, there are reports that the maize export restrictions have been lifted and that private trading would resume, although closely monitored by the National Food Reserve Agency (NFRA).[2]

In the context of the global recession and declining commodity prices, and in an effort to increase the earnings of Malawian cotton farmers, the government banned the exportation of raw cotton from the country in June 2009 and urged textile manufacturing companies to use locally grown cotton. The government also set minimum buying prices for cotton. With the aim of supporting other domestic sectors, the government outlined several tariff changes in its recent 2009–2010 budget proposal. These changes include the removal of duties on rail locomotives, aircraft engines, and spare parts to decrease transportation costs within the country and enable people in the rural areas to easily access markets with agricultural produce. The duties on some agricultural products, including meat offal, vegetables, fish, powdered milk, coffee, tea, nuts, spices, potatoes, and onions have also been increased from 10 percent to 25 percent to foster local production and reduce demand for foreign exchange, while the duties on computer software and accessories have been cut to develop the country's information and communication technologies. Duties have also been removed on dumper trucks, medical, surgical and laboratory sterilizers, and photographic, recording, and projection equipment for the film and music industries.

External Environment

Despite the majority of Malawi's exports (tobacco and sugar) being exported under preferences, the country's Market Access TTRI[3] including preferences is 10.3 percent, significantly higher than both the SSA and low-income country group averages of 3.9 percent and 5.6 percent, respectively. Similarly, the weighted average rest of the world tariff including preferences faced by exports from Malawi is very high at 14.0 percent, with agricultural exports facing a tariff of 15.7 percent and non-agricultural exports facing a much lower tariff of 2.3 percent. The Malawian kwacha depreciated by 22.8 percent in real, trade-weighted terms, increasing the competitiveness of the country's exports.

Malawi is a member of the 15-country Southern African Development Community (SADC) whose Trade Protocol, which was signed in 1996 and came into force in 2000, culminated in the launch of a free trade area in August 2008. The country also belongs to the Common Market for Eastern and Southern Africa

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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(COMESA) which established a customs union in June 2009. As negotiations between the Eastern and Southern Africa (ESA) group (to which Malawi belongs), and the EU towards a comprehensive Economic Partnership Agreement (EPA) could not be completed prior to the December 2007 deadline, the preferences under the Cotonou Agreement elapsed. Malawi, however, maintains a similar level of preferences to the EU market under the "Everything But Arms" (EBA) initiative for least developed countries. The country continues to negotiate a comprehensive EPA with the EU as part of the ESA group.

Behind the Border Constraints

Global rankings point to a somewhat weak institutional environment, with Malawi ranking 132nd in the Ease of Doing Business index, which looks at the business environment in 183 countries. Malawi scores 2.42, on a scale of 1 to 5, on the Logistics Performance Index (LPI), which measures the extent of trade facilitation in the country, above the SSA and low-income averages of 2.35 and 2.29, respectively. It ranks 91st (out of 150) in the world and 13th (out of 39) in the SSA region (with South Africa leading the regional group). Among the LPI subcategories, the country exhibits strong performance in lowering domestic costs while its weakest performance is in the ability to track and trace shipments.

Trade Outcomes

After falling by 3.5 percent in 2007, real trade (in constant 2000 U.S. dollars) was unable to recover in 2008 and fell again by 4.8 percent. Trade is however expected to undergo a turnaround in 2009, with a projected growth rate of 9.8 percent. Imports fell by 4.6 percent in 2008 after falling by 4.2 percent in 2007, while exports dropped by 5.4 percent in 2008 following a 1.1 percent decline in 2007. Both imports and exports are expected to recover in 2009; imports are projected to increase by 7.5 percent and exports by 16.6 percent.

In nominal dollar terms, trade growth decelerated from 36.7 percent in 2007 to an estimated 19.1 percent in 2008. Import growth was an estimated 20.8 percent in 2008, down from 30.1 percent in 2007. Despite the fall in real exports, nominal exports managed to register estimated positive growth of 16.3 percent in 2008 as a result of high world prices for the country's main exports, including tobacco and tea, but this was lower than the growth rate of 49 percent in 2007. Goods exports rose by an estimated 16.9 percent, less than a third of the growth rate of 52.3 percent in 2007, and are expected to grow by only 3 percent in 2009. Services export growth decelerated slightly to an estimated 8 percent in 2008 from 10.4 percent in 2007, and is expected to be 8.5 percent in 2009.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. USAID, 2009.
3. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.

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