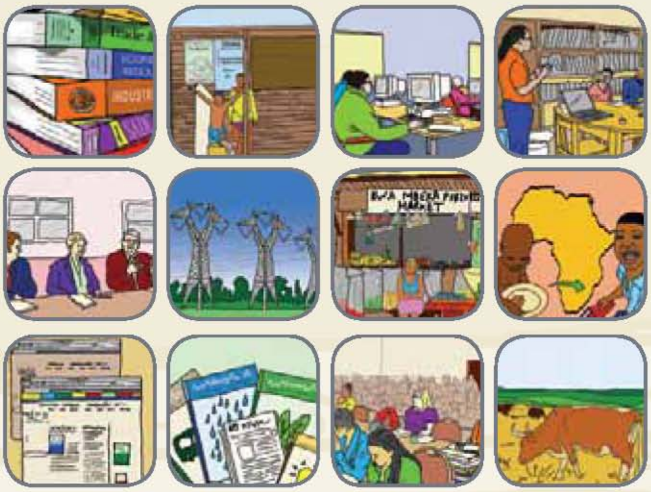
TRADE & INDUSTRIAL POLICY STRATEGIES



INDUSTRIAL POLICY THEMATIC WORKING GROUP

Trade and Industry Performance in Malawi: Opportunities and Policy Challenges

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TRADE AND INDUSTRY PERFORMANCE IN MALAWI: OPPORTUNITIES AND POLICY CHALLENGES

Research Paper
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ACRONYMS

AGOA	African Growth and Opportunities Act
COMESA	Common Market for the Eastern and Southern Africa
EAC	East African Community
EBA	Everything But Arms
EC	European Commission
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EPZ	Export Processing Zone
EU	European Union
FTA	Free Trade Area
GDP	Gross Domestic Product
GNP	Gross National Product
IIP	Index for Industrial Production
IMF	International Monetary Fund
LDC	Least Developed Country
MEGS	Malawi Economic Growth Strategy
MGDS	Malawi Growth and Development Strategy
MPRSP	Malawi Poverty Reduction Strategy
NSO	National Statistics Office
NTB	Non-Tariff Barriers
PPD	Public-Private Sector Dialogue
SADC	Southern Africa Development Community
SAPs	Structural Adjustment Programme
SUCOMA	Sugar Corporation of Malawi
TIPS	Trade and Industrial Policy Strategies

TPNWG	Trade Policy National Working Group
TRALAC	Trade Law Centre of Southern Africa
TRI	Trade Restrictive Indicator
UNCOMTRADE	United Nations Commodity Trade Statistics Database
UNECA	United Nations Economic Commission for Africa
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

SUMMARY

This research paper has been commissioned by Trade and Industrial Policy Strategies (TIPS) under the Southern African Development Research Network (SADRN) project to contribute towards an understanding of key issues and dynamics within industrial policy in different countries. This study focuses on Malawi.

The study establishes that Malawi has gone through three stages of trade and industrial policy. During the colonial era the main focus was on production and trade of agricultural commodities, namely coffee, tobacco and tea. In the post-independence era, Government sought to industrialise by pursuing import substitution policies. The poor economic performance experienced in the late 1970s and early 1980s led to Government adopting economic liberalisation policies under the Structural Adjustment Programmes (SAPs) which were expected to reverse the trends experienced in the 1980s. However, evidence from studies show that manufacturing activities declined during the SAPs period.

Against this background, Government adopted a new development planning framework, the Malawi Growth and Development Strategy (MGDS) which seeks to transform the country from net importer and consumer to net producer and exporter. The MGDS has adopted trade and private sector development as a viable means to achieve economic growth and a reduction of poverty. Implementation of the MGDS has started bearing fruit in some sectors such as agriculture, where Government has managed to achieve food security. There are substantial policy reforms aimed at enhancing the performance of trade and industry. Government has applied a range of policy measures including investment and export incentives, an expanded market through regional integration and trade agreements,

infrastructure development and the creation of a favourable policy environment. However, little progress has been made in particular areas such as that of the diversification of exports.

As such, the country's economic structure has remained unchanged. The country continues to depend on agriculture with tobacco, tea and sugar being major commodities produced and exported. The contributions of trade (imports and exports) and industrial sector to GDP have stagnated at around 45% and 20%, respectively, with the manufacturing sector accounting for 11% of GDP. A further examination of the country's Index of Industry Production shows that, overall, the industrial sector has indeed stagnated. The World Bank (2006) identified high cost of doing business as among the major causes of the poor performance of the private sector. Therefore, Government needs to step up its effort to improve the business climate by undertaking further reforms of its policy and regulatory system and by improving power and utility supply.

1.0 INTRODUCTION

This paper has been prepared as part of a body of research commissioned by Trade and Industrial Policies Strategies (TIPS) and looking into the link between trade and industrial policies The objective of the research is to enhance policy makers' understanding of key issues and dynamics within industrial policy in different countries. In this regard, the research seeks to build a pool of information on how countries are pursuing industrial development within the context of global and regional integration.

The paper focuses on the conduct of trade and industrial policies in Malawi, their linkages and impacts on the performance of the trade and industry sectors. The preparation of the paper was guided by terms of reference provided by TIPS. The methodology used in compiling the paper entailed desk research supplemented by consultations with officials of the Ministry of Industry and Trade.

2.0 BACKGROUND

2.1 Economic context

Malawi is a landlocked, least developed country situated in Southern Africa and with a population of 13.1 million people (National Statistics Office, 2008). With a per capita Gross National Product (GNP) of approximately US$ 290, Malawi is among the poorest countries in the world. The country's economy is dominated by agriculture which accounts for about 34 percent of its Gross Domestic Product (GDP) and over 80 percent of its export earnings. More than 85 percent of its 13.1 million people depend on agriculture for their livelihood. The high dependence on agriculture makes the country extremely vulnerable to weather changes and world economic shocks. This is aggravated by the country's reliance on a few export commodities which include tobacco, tea and sugar. Tobacco alone accounted for 64 percent of the country's export earnings in 2008 (Ministry Development Planning and Cooperation, 2009). The manufacturing sector accounts for only 11 percent of Malawi's GDP and about 14 percent of the manufacturing products are exported. Other key contributors to the country's GDP are the wholesale and retail trade, construction and financial, and insurance services.

Box 1. Main features of the Malawi economy

Population (2008):	13.1 million
Population annual growth rate (1998 – 2008):	2.8%
Percentage of population living below poverty line:	40%
Life expectancy (years):	48
Surface area (sq. km) (thousands):	118.5
Agricultural land (% of land area):	48.8

Economic profile

	2000	**2005**	**2007**	**2008**
GDP (current $ billion):	1.74	2.86	3.59	4.27
GDP Growth (annual %)	1.6	2.6	8.6	9.7
GNP per capita Atlas method (curr. $)	150	220	250	290
Gross Capital formation (% of GDP):	13	23	26	32
Inflation, GDP deflator (annual %)	30.5	15.3	7.4	8.9
Agriculture, value added (% of GDP)	40	33	34	34
Industry, value added (% of GDP)	18	21	20	21
Services, etc., value added (% of GDP)	43	47	45	45
Exports of goods and services (% of GDP)	26	20	24	23

Source: World Bank, *World Development Indicators* (2009)

After a prolonged period of poor economic growth, Malawi started to register high economic growth from 2006, averaging 7.5 percent between 2006 and 2007 (Ministry of Economic

Planning and Development, 2008). In comparison, between 1998 and 2004, the economy grew by less than 2 percent (World Trade Organisation, 2004). Improvements in economic growth followed the implementation of policies by the new Government ushered in 2004 which restored macro-economic stability in the economy. The inflation rate has since reduced to a single digit, averaging 8 percent in 2007 and standing at 8.7 percent in 2008 in spite of the global fuel crisis (Ministry of Development Planning and Cooperation, 2009). The value of the Malawi Kwacha against the United States Dollar has also stabilised, although there are concerns that it is over-valued. The concerns of the Kwacha being overvalued have been there for some time. The matter has, however, gained prominence in the wake of foreign exchange shortage that the country has been experiencing since 2008.

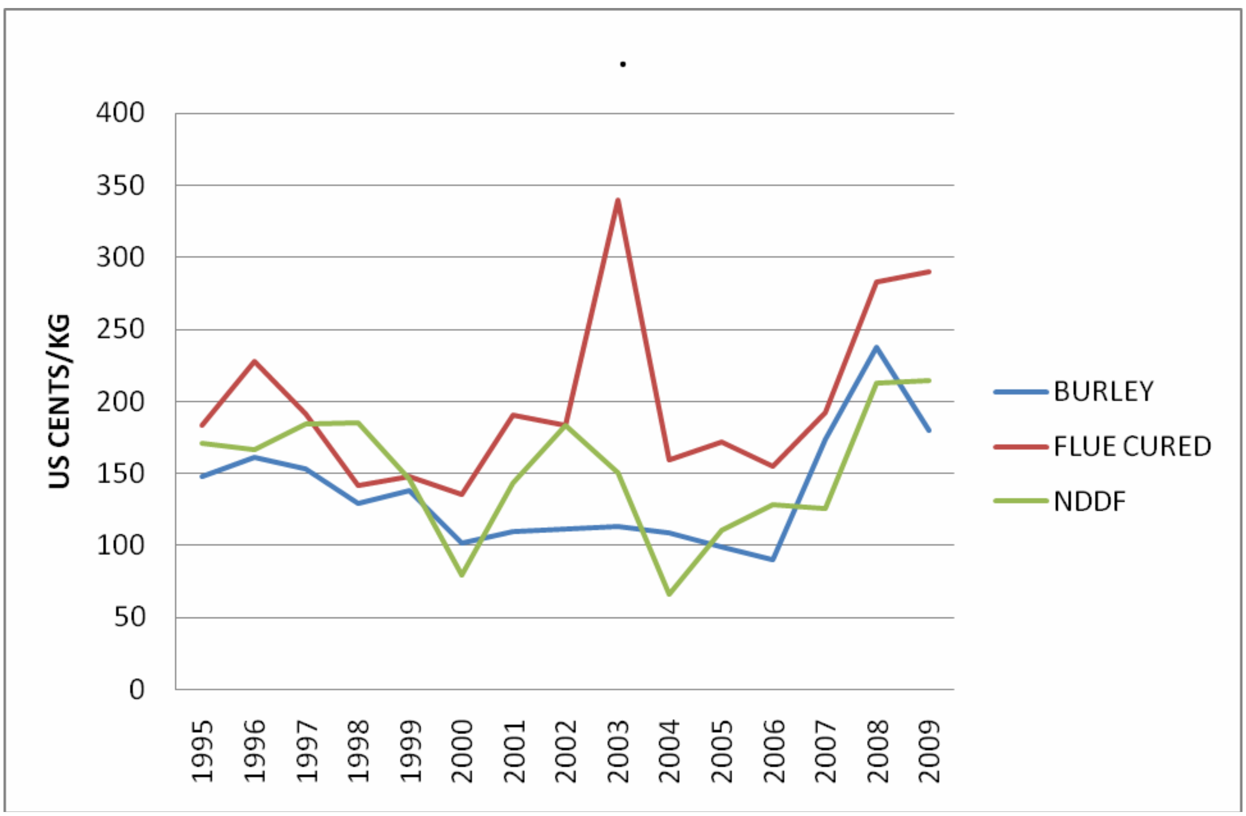
The improvement in the economic growth that the country has registered has resulted in improvements in the poverty situation. According to the Ministry of Economic Planning and Development (2008), the number of people living below the poverty line has been reduced from 52 percent in 2004 to 40 percent in 2007. The reduction in poverty has been attributed mainly to the good performance of the agricultural sector following the agricultural fertilizer subsidy scheme that the Government re-introduced in 2005[1] (Ministry of Economic Planning and Development, 2008).

Despite the impressive economic performance registered by Malawi in the past five years, the country's economic development prospects still look precarious. Reduction in global commodity prices as a result of the global economic crisis and weather uncertainties with the forecast of an ***El Niño*** pose a threat to Malawi's economic growth prospects. In addition, the low tobacco prices paid to the farmers this year, when compared to last year's prices, may

[1] The Malawi Government used to offer farm input subsidies to farmers before the adoption of the World Bank/IMF sponsored Structural Adjustment Programme in the 1980s. The removal of input subsidies was followed by poor performance of the smallholder sub-sector. In 2005 the Bingu wa Mutharika's administration introduced a new input subsidy scheme which, unlike the previous scheme, only targets poor smallholder farmers.

negatively affect tobacco production in 2010 as some farmers are likely to reduce their tobacco production. As can be seen in the figure below, the price of Burley tobacco, the major type of tobacco grown by farmers in Malawi, hovered below US$2/Kg during the 2009 buying season while, in 2008, the average price for burley tobacco was well above US$2/Kg (US$ 2.37/Kg). Although the tobacco prices this year are higher than those of some previous years, the high input cost that the farmers experienced in the 2008/2009 growing season due to the global increase in fertiliser prices has drastically eroded the farmers' take-home income. This will likely negatively affect the farmers' production decisions in the 2009/10 growing season.

FIGURE 1: AVERAGE TOBACCO PRICES, 1995 - 2009



SOURCE: Tobacco Control Commission (www.tccmw.com)

Despite these factors, Government has projected the economy to grow by 7.9 percent. Agriculture is projected to grow by 10.2%, down from 11.3% in 2008 (Ministry of Planning Development and Cooperation, 2008). The mining and quarrying sector is expected to be the major contributor to the projected economic growth for 2009. The sector is projected to grow by 9.3 percent, up from 6.3 percent in 2008. These projections do, however, seem to be somewhat optimistic.

2.2 Overall Policy Framework

Development policies in Malawi are guided by the 'Vision 2020' which was launched in 2000 as the country's long-term development plan. The vision states that "by the year 2020, Malawi as a God fearing nation, will be secure, democratically mature, environmentally sustainable, self-reliant with equal opportunities for and active participation by all, having social services, vibrant cultural and religious values and a technologically driven middle-income economy". The vision suggests a number of issues in terms of economic development, including the realisation of a broad based economic growth and graduation from a dependence on agriculture to an economy increasingly dependent on manufacturing and services sectors.

To translate this vision Government developed the Malawi Poverty Reduction Strategy Paper (MPRSP) which was launched in 2002. The goal of the MPRS was to achieve 'sustainable poverty reduction through empowerment of the poor.' However, the Strategy focused more on the social sector than the economic sector. Consequently, a complementary policy framework known as the Malawi Economic Growth Strategy (MEGS) was developed in 2004. The MEGS focused mainly on private sector development.

Subsequent reviews of the MPRSP led to the adoption of the Malawi Growth and Development Strategy (MGDS) which integrated both the MPRSP and the MEGS. The

MGDS was launched in 2006 and runs up to 2011. The thrust of the MGDS is to restructure the economy so that it is able to achieve an annual economic growth of no less than 6 percent, which is the growth rate required to make a dent on poverty. The Strategy's objective is to "transform Malawi from a predominantly importing and consuming to a producing and exporting nation". The MGDS represents a policy shift from social consumption to sustainable economic growth and infrastructure development (Ministry of Economic Planning and Development, 2006). The assumption underlying the strategy is that the spin-offs of economic growth will trickle down to the social sectors.

Through the MGDS, government has identified six broad strategic themes that define the country's policy direction. The six thematic areas are:

(a) Sustainable economic growth;
(b) Social protection;
(c) Social development;
(d) Prevention and management of nutrition disorders, HIV and AIDS;
(e) Infrastructure development; and
(f) Improved governance.

Within these thematic areas government has identified six priority areas called 'priorities within priorities' and these are expected to spur the country's economic development. The priority areas are:

(a) Agricultural and food security;
(b) Infrastructure development;
(c) Irrigation and water development;
(d) Energy generation and supply;
(e) Integrated rural development; and
(f) Prevention and management of HIV and AIDS.

In 2009, government added three more areas to the priorities list, namely; education, science and technology, youth development and empowerment, and climate change.

By identifying these sectors as priorities, the government has committed itself to commit substantial resources to these sectors. The table below shows the resource requirement for implementation of activities identified under the priority areas.

TABLE 1: MINIMUM RESOURCE REQUIREMENT TO KEY FOCUS AREAS (MK'MILLION AND PERCENTAGE OF TOTAL MINIMUM BUDGET REQUIREMENT)

Priority area	2006/07		2007/08		2008/09		2009/10		2010/11		5YRS TOTAL	
	MK	%	MK	%	MK	%	MK	%	MK	%	MK	%
Agriculture and Food Security	300	1.12	300	1.04	295	1.07	295	1.06	295	1.04	1,490	1.07
Irrigation and Water Development	1,928	7.20	1,928	6.70	1,210	4.40	1,210	4.36	1,210	4.27	7,513	5.38
Transport and Communications	7,929	29.60	8,039	27.94	8,073	29.35	8,132	29.32	8,170	28.84	40,488	29.00
Energy Generation and supply	649	2.42	649	2.26	217	0.79	217	0.78	217	0.77	1,956	1.40
Integrated Rural Development	1,402	5.23	1,459	5.07	1,504	5.47	1,569	5.66	1,641	5.79	7,602	5.44
Health	4,952	18.49	5,387	18.72	5,797	21.08	6,259	22.56	6,695	23.63	29,194	20.91
HIV and AIDS	8,143	30.40	9,576	33.28	8,870	32.25	8,437	30.41	8,437	29.78	43,619	31.24
Education	1,481	5.53	1,438	5.00	1,536	5.59	1,621	5.84	1,667	5.88	7,771	5.57
Total	26,784	100	28,776	100	27,502	100	27,740	100	28,332	100	139,634	100.

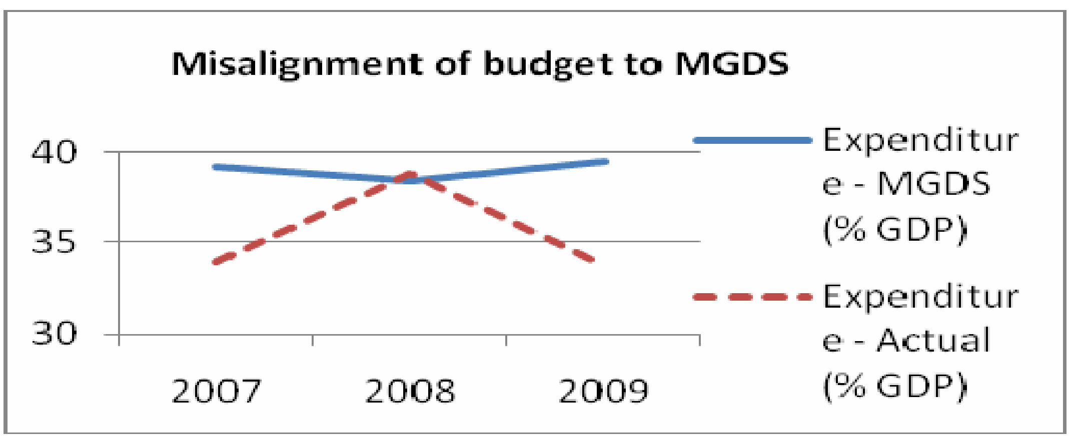
Source: The Ministry of Economic Planning and Development (2006)

Table 1 shows that within the priority areas HIV and AIDS was planned to get the highest budgetary allocation averaging 31% of the total budget requirement. Transport and communication, and health were also planned to receive substantial amount of funds. The figures in the Table also show that although the MGDS is a trade led growth strategy, government planned to allocate over 50% of the annual budget for priority areas to social sectors (health, HIV and AIDS and Education). Agriculture and food security was set to receive the least allocation among the priority areas. This could be an indication of government thrust to diversify away from agriculture.

HIV and AIDS[2] is considered a serious challenge to government's efforts to realise economic growth. Similarly education is seen as a critical precursor for the country's economic development. Therefore, the high budget allocation to social sectors is not a contradiction to the thrust of the MGDS which is to realise sustainable economic development through trade and investment.

However, an examination of the actual budget allocations over the past three years shows that there is a misalignment of resource allocations to the priority sectors.

FIGURE 2: CORRELATION BETWEEN NATIONAL BUDGET ALLOCATIONS AND THE BUDGET REQUIRED FOR THE IMPLEMENTATION OF THE MGDS



Source: Malawi Economic Justice Network, 2009/10 Budget Analysis Report, p. 13.

[2] Malawi has been registering a decline in HIV prevalence. In 1994 HIV prevalence among pregnant women aged between 18 to 24 years was 17.4%. The prevalence rate was recorded to be 12.3% in 2006.

As can be noted from Figure 2, except in 2008, Government's budget allocations to priority areas have been allocating lower than the planned expenditure in the identified priority areas. This could be an indication of Government's failure to mobilise sufficient resources to allocate to the priority areas. There has also been re-ordering of budget allocations to specific priority areas. Agriculture and food security, which was planned to get the least budget allocation has turned out to be the recipient of the highest budget allocation due to the introduction of the targeted agricultural input subsidies in 2005.

3.0 MAIN FEATURES OF TRADE AND INDUSTRIAL POLICIES IN MALAWI

3.1 Evolution of trade and industrial policies in Malawi

Trade has for a long time been an integral part of Malawi's economy, dating back to the colonial era. Following the establishment of a British Protectorate in Nyasaland in the 1890s, European companies and individuals established estates in Nyasaland to produce and export coffee. The major objective of the British was then to replace slave trade with 'legitimate' trade. As world coffee prices collapsed at the turn of the century, the settlers turned their attention to production and exportation of cotton, tea, and tobacco using the indigenous population as labour (WTO, 2004). The country's commercial policy focused mainly on the promotion of agriculture in terms of production and trade.

Various measures were implemented to support agriculture production and trade. These included the construction of the Trans-Zambezia Railway, through Mozambique territory, which was completed in 1922 and the construction of a bridge crossing the Zambezi between Sena and Dona Ana in 1935. The colonial government also entered into trade agreements with the Portuguese authorities in Mozambique and with the authorities in Bechuanaland (Botswana). Both agreements remained in force on a *de facto* basis in the post-independence period. The customs agreement with Botswana still remains in force, while the one with Mozambique was replaced with a new Agreement in 2005.

The colonial economic structure and trade policy regime remained in place after independence in 1964. The economy continued to depend on export-oriented agriculture supplemented by domestic production of food crops by smallholder farmers and the migration of large numbers of Malawians to work in the mineral mines of South Africa. The policies adopted after independence resulted in a significant increase in production and exports of tobacco, resulting in a six percent average annual growth rate in GDP between independence and the late 1970s (WTO, 2004). However, the narrow base of the economy made it vulnerable to external shocks.

Hence, one of the economic objectives of the post-independence Government was to diversify the economy beyond agriculture through promotion of industrial development. As was the case with many other developing countries, Malawi sought to promote industrial development through import substitution. Import substitution was seen to be a viable way of promoting industrialisation as it was based on existing domestic demand with no sophisticated quality requirements. In order to guarantee a market for the new industries, government used trade policy instruments (high tariff and quantitative restrictions) to protect the industries from import competition. Some of the industries established under this regime include the Sugar Corporation of Malawi (SUCOMA), David Whitehead and Sons which manufactured textiles and clothing, Bata Shoe Company, Lever Brothers (Malawi) Limited, and Carlsberg Breweries (Malawi) Limited. Some of the companies still enjoy a high level of protection, such as the sugar industry where government applies both high tariffs and non-tariff barriers in the form of licensing requirements. These policies resulted in the creation of inefficient businesses which could not withstand import competition after liberalisation in the 1990s. Consequently, the companies owned by government have been privatised and some of the firms have since closed.

In the 1980s, rising oil prices, the war in Mozambique (which affected the country's transport system to international markets and led to an influx of Mozambican refugees) coupled with declining tobacco prices led to recurring crises and macro-economic instability. Consequently, the country experienced slow growth and declines in per capita income - by 10 percent between the late 1970s and early 1990s (WTO, 2004).

To reverse this trend, Government adopted the World Bank/International Monetary Fund (IMF) sponsored Structural Adjustment Programme (SAP). The SAP centred on reducing the restrictive and complex trade measures and promoting greater integration through bilateral, regional, and multilateral agreements. The structural reforms implemented included trade liberalisation, the elimination of exchange rate controls, liberalisation of the capital market and privatisation. In agriculture, government removed restrictions regarding the production and marketing of agricultural communities as part of the reforms. Consequently, crops whose production was restricted such as tobacco were opened up to smallholder farmers and private traders were allowed to be involved in the buying and selling of agricultural inputs and produce.

Under SAPs government substantially removed barriers to trade such that tariffs on imports were reduced from an average of 21 percent in 1996/97 to 13.2 percent in 2003 (UNCTAD, 2006). The Government also removed specific non-tariff barriers such as import bans and started addressing cumbersome customs procedures. As a result of these measures, Malawi is considered as one of the most liberal regimes in southern and eastern Africa as can be seen from table 2.

Table 2: Trade Restrictiveness Indicator (TRI) Rating[3] - 2005

Country	Tariff Rating (1-5)	NTB rating (1-3)	Overall TRI rating (1-10)
Malawi	2	1	2
SACU	2	2	5
Zambia	2	1	2
Zimbabwe	3	2	6
Mozambique	2	1	2
Kenya	3	2	6
Egypt	4	2	7
Tanzania	2	2	5

Source: TRALAC (2006, Table 1, p. 12).

The TRI rating is used to assess the level of liberalisation of an economy. A low TRI rating means that the country's trade regime is 'open trade' while a high rating signifies a high level of trade protection. As can be noted from the table above, Malawi, Zambia and Mozambique have very open trade regimes while the more developed economies of SACU, Egypt, Kenya and Zimbabwe are fairly restrictive. The low Index for Malawi is an outcome of the country's involvement in the Structural Adjustment Programmes (SAPs).

Malawi has an overall TRI rating of 2 while most of its trading partners within the southern and eastern Africa region have ratings of above 4. However, with the progression of regional integration processes taking place within the region, some of the remaining trade restrictions have been removed particularly following the launch of Free Trade Areas under the Common Market for the Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) in 2000 and 2008, respectively.

Liberalisation was seen mainly as a strategy for promoting industrialisation. It was envisaged that by opening up the economy, there would be more investment, particularly in the

[3] The Trade Restrictive Index is an aggregate measure of the level of a country's trade openness. Covered in the calculation are level of tariffs, licensing requirements, bans and other non-tariff barriers.

manufacturing sector, and that firms would be able to access capital and raw materials at low cost, thereby reducing the cost of production. The combination of low cost of production and competition from other firms was expected to improve the efficiency and competitiveness of domestic industries on both the domestic and export markets.

However, the liberalisation did not have the intended effect on the country's industrial sector. Since most of the domestic industries were established under protection, the opening up of the economy exposed them to import competition to such an extent that some firms were forced to close. Consequently the average annual growth of manufacturing declined from six percent before SAP to four percent during the SAP implementation period (Munthali, 2004). This caused scepticism among policy makers and the private sector about the expected positive impacts of liberalisation on industrialisation. Government has therefore adopted a cautious approach to the implementation of trade policy reforms. A good example of the half-spirited implementation of trade reforms is around the resistance to the implementation of the SADC Free Trade Area (FTA). Malawi has not fully eliminated her tariffs as required by SADC under the FTA which was launched in August 2008. The reason for this non-compliance has mainly been concerns regarding resultant revenue loss and import competition. These concerns arise from the fact that 60 percent of the country's imports comes from SADC particularly South Africa. Although this may, politically, be plausible, economically it is damaging to the economy as credibility of government policies are called into question.

Currently, the policy relating to trade and industry in Malawi is embodied in two policy documents, namely the MGDS and the Integrated Trade and Industry Policy which was adopted in 1998. The goal of the Integrated Trade and Industry Policy is "to create a conducive environment in which the performance of the private sector will be efficient and market oriented, improving its competitiveness domestically and internationally with a view to ensuring the sector's maximum contribution to the achievement of overall social-economic objectives." The policy document integrates trade and industry to ensure complementarity between trade and industry policies. (Ministry of Industry and Trade, 1998).

The Policy's mission statement summarises the gist of the policy which is stated as "to promote, support, and facilitate private enterprise efforts in order to make Malawi a manufacturing based economy, capable of creating and sustaining a competitive advantage in domestic and international markets and to support effective participation of Malawians in the trade and industry sectors." Just like the MGDS, the Integrated Trade and Industry Policy places the development of the country's supply capacity and the development of appropriate policies as key issues that have to be addressed. Some of the strategies the Policy has identified include construction of transport infrastructure, improvement of energy supply, communication facilities and construction of industrial facilities.

Although the Integrated Trade and Industry Policy document was adopted before the MGDS, there are a lot of commonalities between the two documents. The major noticeable difference is that the MGDS document identifies specific priority sectors that are considered crucial to the country's economic sector. Since the two documents are supposed to complement each other, there have been calls from the private sector and from civil society for government to review the policy and come up with a new policy that would be consistent with the current national economic development framework.

The MGDS as an overarching policy framework covers all the sectors and is supposed to ensure that all the sectors work in harmony towards the attainment of the country's development objectives. The MGDS is structured into six broad themes as follows:

(a) Theme One: Sustainable growth - Under this theme government seeks to maximise economic growth through promotion of identified high growth sectors which include tourism, mining, integrated cotton industry, manufacturing and agro-processing.

Government also seeks to foster food security; improving the enabling environment for the private sector; encouraging export led growth; promoting economic empowerment; and improving access to land and housing.

(b) Theme two: Social protection and disaster risk management – The thrust is to protect the most vulnerable through:

- Caring for the most vulnerable with limited factors of production (malnourished under-five children, school-going children, orphans, pregnant and lactating mothers, and destitute families);
- Preventing the vulnerable from slipping into poverty due to economic shocks;
- Increasing the assets of the poor to enable them to engage in economic development activities; and
- Preventing disasters where possible and mitigating the negative impact of disasters on the vulnerable.

(c) Theme Three: Social Development - Social Development is seen as critical in achieving economic growth and poverty reduction. In this regard, the strategy specifically focuses on:

  - Providing essential health care and strengthening service delivery;
  - Improving the quality, relevance, access, and management of education at all levels; and
  - Promoting gender equality.

(d) Theme Four: Prevention and Management of Nutrition Disorders, HIV and AIDS – The strategy directs government's efforts towards ensuring effective utilization of quality food and the biological utilization of nutrients in the body; reduced levels of malnutrition among all Malawians; reduced incidences and cases of dietary related non-communicable diseases and micro-nutrient disorders; and increased productivity and availability of food crops. Key strategies include enhancing coordination of nutrition programmes, building capacity for nutritionists and dieticians, and community nutrition workers. The strategy also incorporates strategies which seeks to not only halt and reverse the spread of HIV and AIDS , but also to decrease the negative impact of the epidemic on people living with AIDS and reduce the economic and social consequences for those who care for people living with HIV and AIDS.

(e) Theme Five: Infrastructure Development - Infrastructure is considered to be critical to achieving the growth and social objectives of Government. The strategy is focused on five main areas, namely: transport; energy; water and sanitation; information and communication technologies; and science and technology research.

(f) Theme Six: Improved Governance – Government considers good governance as a necessary precondition for development. The strategies focuses on the following areas:

- Achieving and sustaining macroeconomic growth,
- Strengthening public policy formulation and implementation in a transparent and responsive manner,
- Improving service delivery and accountability at the local level through decentralization,
- Developing a strong justice system and rule of law,
- Ensuring personal security,
- Establishing an institutional setting for good corporate governance, and
- Promotion of human rights.

Issues relating to trade and industry are covered under Theme One of the MGDS which relates to sustainable economic development. In this context, the expansion of trade and industry are seen as strategies for realising sustainable economic development and poverty reduction. Government's focus is, therefore, to increase domestic and foreign investment in productive sectors, eliminate food shortages, promote exports by addressing supply constraints, diversify the economy, and ensure that this growth is shared among all Malawians. These issues constitute the objectives of Malawi's trade and industry policy. A number of strategies have been identified to achieve these objectives. Table 3 details the identified strategies with their expected outcomes.

Table 3: Summary of Theme One of the MGDS: Sustainable Economic Growth

Sub Theme	Long-Term Goal	Medium-Term Outcome
1. Potential growth sectors	• Sustained Economic Growth of at least 6 percent beginning in 2007, • Increase in exports, • Diversify economic base and sources of foreign exchange, • Reduced environmental degradation.	• High growth is realised in tourism, mining, cotton/textiles, manufacturing; and agro-processing, • Increased agricultural output mainly from tea, tobacco, sugar, cotton, maize and other crops, • Increased value added to agriculture and productivity of farmers and reorientation of smallholder sub-sector toward greater commercialisation and international competitiveness, • Increased productivity and protection of natural resources (fisheries, forestry, mining, environment).
2. An enabling environment for private sector led growth	• Increase private sector foreign and domestic investment .	• Increased business enterprises that contribute positively to economic growth and increase domestic market supply, • Increased foreign direct investment; • Improved private sector competitiveness.
3. Food Security	• No food shortages even in times of disasters (e.g. drought and floods), • Increased exports of food staples.	• Food is available in sufficient quantities and qualities and supplied through domestic production or imports, • All Malawians have at all times physical and economic access to sufficient nutritious food required to lead a healthy and active life.
4. Export led growth	• Malawi becomes a net exporter.	• Increased number of businesses accessing the international markets with products.
5. Economic Empowerment	• Reduce income disparity, • Increase in employment, and income.	• Increased employment and income of the poor from on- and off-farm activities, • Increased productivity of rural communities / businesses and their contribution to economic growth, • Women, youth and the disabled fully participate in economic activities.

6. Land and Housing	• Ensure tenure security and equitable access to land, • Improved housing delivery systems, processes, procedures, and services with particular focus on vulnerable and low-income groups.	• Efficient use of land and land based resources and equitable access to land by all productive Malawians and other investors, • Provision of adequate and conducive framework for improved access.

Source: Ministry of Economic Planning and Development: MGDS (2006, Table 5.1).

Implementation of the MGDS has started to bear some results particularly in agriculture, where following the introduction of agricultural input subsidy, the production of maize has increased beyond the country's requirement and the excess has been exported to neighbouring countries. This has helped to boost the country's exports. The attainment of food security has provided a momentum for government to intensify its effort towards private sector development.

According to the World Bank (2006) high transaction costs is Malawi's major constraint to private sector development. The high transaction cost is said to be a result of a number of factors including the landlocked status of the country which results in high transport costs, the unreliable supply of utilities and cumbersome administrative processes for business establishment. The World Bank is supporting the Malawi Government to implement reforms to its administrative requirements for business operations. These include introduction of single business licence to replace the current multiple licensing system, streamlining the issuance of permits for establishing businesses through introduction of one-stop investment centre, and introduction of a commercial court. Government has also embarked on a project to link the country to the sea through the Shire and Zambezi rivers.

Cost and consistency of supply of utilities are also major factors that contributes to the country's high cost of production. On average, 10 percent of sales are lost due to power outages and firms without a generator lose as much as 20 percent of sales to power cuts (Record and Davies, 2006). In addition the lack of adequate national generating capacity constrains investment in power-intensive processes such as mining and manufacturing. Inadequacies in the power supply also have a negative impact on the water supply, which is reliant on electric pumps. Water outages have a particularly negative effect on manufacturers in the food processing sector. Government is, therefore, planning to tap electricity from

Mozambique to complement the domestically generated power. In addition, government has opened up the power sector to other players who may be interested to generate and supply electricity.

These projects are expected to drastically reduce the cost of doing business. The Shire-Zambezi Waterway alone is expected to cut the country's transport cost by over 60% (United Nations Economic Commission for Africa, 2007).

3.2 Global and regional integration

With a per capita income of US$290, the domestic industry is too small to sustain meaningful private sector growth. Malawi's dependence on other countries goes beyond market access. Its landlocked status requires cooperation with its neighbours to link with international markets. Malawi is also highly dependent on its trading partners for raw materials and capital goods for its manufacturing sector. Therefore, Malawi's involvement in trade arrangements is a very important element of its trade policy. Malawi is, therefore, a signatory to a number of trade agreements at multilateral and regional levels.

At the multilateral level, Malawi is a member of the World Trade Organisation (WTO). Malawi sees her participation in the WTO as an avenue for accessing support towards addressing its supply-side constraints. Membership to the WTO also accords Malawi's policies credibility, while at the same time guaranteeing market access to other WTO members investors. Hence, it serves as a tool for attracting investment. However, with no resident representation in Geneva, Malawi's participation in the WTO is very passive. This problem is compounded by the human resource limitations in the Ministry of Industry and Trade which is responsible for WTO matters. The Foreign Trade Department of the Ministry of Industry and Trade has fewer than ten officers who have to follow up on all issues relating to Malawi's involvement in international trade ranging from bilateral trade issues and regional integration to multilateral trade issues. In addition, very few of these officers have been properly trained in trade policy issues. The Ministry has, therefore, not been able to follow up closely on the developments taking place in the WTO. In addition, the Ministry has not been able to maintain an effective mechanism for coordinating WTO matters at national level. Consequently, the country has not been able to exercise its rights and obligations under the WTO including fulfilling notification requirements (UNCTAD, 2006).

At regional level, Malawi is a member of the Southern African Development Community (SADC) and the Common Market for the Eastern and Southern Africa (COMESA). It is one of the nine countries that established the COMESA FTA in 2000. COMESA is moving towards establishing a customs union which was launched in April 2009, while SADC launched its FTA in August 2008. Malawi is yet to fully comply with the FTA requirements under SADC, however. SADC is set to transform into a customs union in 2010 and preparatory work has already commenced on this.

Malawi is also participating in the Economic Partnership Agreement (EPA) with the European Commission (EC) within the Eastern and Southern Africa (ESA) configuration. It has, however, not initialled any interim EPA, although its market access offer – which was submitted in December 2007 as part of the final negotiations for an Interim EPA – was accepted by the EC[4]. According to the Ministry of Industry and Trade, Malawi has not initialled Interim EPA because the Agreement in its current form poses a threat to the country's domestic industry and undermines Government's policy space to take measures that are deemed necessary for the country's economic development.

These fears are arising from the EU's capacity to produce at a very low cost. Therefore, if such goods are brought into Malawi, the domestic firms would not be in a position to compete leading to closure of firms and loss of jobs. There are also fears that an EPA

[4] Each ESA country was required to submit a market access offer which met the 85% trade coverage trade liberalisation within a period of 15 years. Malawi's offer met these requirements and was accepted by the EC.

involving Malawi's trading partners within the southern and eastern region would negatively affect Malawi's exports through increased competition and erosion of trade preferences. A study by TearFund, (2007) contends that an EPA involving Malawi's trading partners would thwart Malawi's industrialisation prospects. This assertion is premised on the fact that a large volume of Malawi's exports of manufactured products go to regional markets, mainly SADC.

Concerns have also emerged around the provisions of the Interim EPA which do not allow signatory ESA countries to raise duties above the current applied level. ESA countries are also required to automatically extend to the EU trade preferences offered to third parties in other preferential trade arrangements. There are fears that such stringent provisions would prevent Malawi from pursuing policies that are considered important to its economy. Lastly, the EU is Malawi's major source of imports and tariff revenue realised from there contributes significantly to government revenue. Twelve percent of Malawi revenue comes from tariff revenue. It is estimated that removal of tariffs on imports from the EU under EPA would result in loss of government revenue amounting to Euro 6.1 million per annum which is about 0.5% of the 2008/09 budget. Although this looks small the amount is enough to run a big Ministry for a year. Because of this, civil society in Malawi has been particularly vocal on these arguments. Malawi, therefore, currently trades with the European Union (EU) under the Everything But Arms (EBA) Initiative.

In addition to being a member of these regional blocs, Malawi has bilateral trade agreements with South Africa, Zimbabwe, Mozambique, and Botswana (which is a customs agreement). Three more bilateral trade agreements involving Namibia, Tanzania and Zambia are under consideration, although the process seems to have come to a standstill.

As a least developed country (LDC), Malawi is a beneficiary of a number of non-reciprocal trade preferential schemes such as the EBA of the European Union, the African Growth and

Opportunities Act (AGOA) and preferential trade schemes offered by the People's Republic of China, India, Canada and Japan[5]. These schemes grant market access to imports from Malawi, although their utilisation is limited. According to Kimberly Elliot (2009) supply side constraints and non-traditional barriers to market access (such as food safety standards) present serious obstacles to utilising trade preferences by developing countries. This is particularly true for Malawi as her exports are dominated by agricultural commodities which are subjects of stringent sanitary and phytosanitary measures in the countries that offer the preferential market access schemes.[6]

While multiple membership to trade agreements offers the private sector in Malawi a diversified choice of arrangements that suit their capacity and needs, it is a source of confusion among private sector operators. Some of the private sector players do not know which agreement to use and tend to be confused over documentation and procedures. In turn, the implementation of the agreements requires human and financial resources. Given that these are in short supply in the country, implementation of the agreements is a big challenge particularly with regard to translating the agreements' instruments for use by the private sector.

With Malawi facing multiple membership to trade agreements, there has been ongoing debate on the need for the country to make a choice between COMESA and SADC. To help with the issue, government commissioned three studies which were done in succession. All the studies established that there were both benefits and losses associated with being part of COMESA and SADC. The benefits associated with dual membership include access to a wider market. Exporters in Malawi are also said to have an opportunity to choose the

[5] Malawi as an LDC enjoys unilateral non-reciprocal market access offered by developed countries. Lately, as part of the south-south cooperation developing countries such as China and India have introduced their own preferential trade schemes in favour of least developed countries.

[6] For instance, on a number of occasions, Malawi's exports of ground nuts have been refused entry into the EU market on account of excessive levels of aflatoxins.

agreement that suits them best as the agreements have different requirements and procedures. This is particularly important in the case of rules of origin. The rules of origin under SADC are said to be more stringent and cumbersome while those under COMESA are said to be more flexible and trade-facilitating. Hence, if an exporter is not able to meet the rules of origin under SADC, it has the option of exploring market opportunities under COMESA. However, these flexibilities come with implementation challenges such as a duplication of efforts where government has to do the same thing twice under the two regimes. The studies provided options for Malawi to consider but government has been postponing taking a decision. Moreover, a study conducted by the United Nations Economic Commission for Africa (UNECA), established that Malawi was better off belonging to both regional blocs. However, should a need arise to choose one regional bloc, SADC would be an optimal choice. SADC is a strategic market for Malawi's industrial products such as textiles and clothing. Whereas it is for this reason that SADC was identified as an optimal option, government – in consultation with the private sector – made an interim decision to maintain membership of both SADC and COMESA while observing the unfolding regional integration processes. According to the Ministry of Industry and Trade, this decision was made on the premise that some companies were going to lose market shares if the country was to withdraw from any one regional bloc.

A complementary decision was made to negotiate with the other members for the two regional blocs to conclude an FTA which would allow Malawi to opt out of them. Therefore the decision of the tripartite Summit involving heads of state and government from COMESA, SADC and the East African Community (EAC) for the three regional blocs to establish a mega FTA provides some relief to the government of Malawi. The realisation of this FTA still remains a challenge as the three regional blocs are at different levels of integration and their members have diverse trade interests in terms of markets. While some members find opportunities in both COMESA and SADC markets, including Malawi, there are those countries that do not see any export opportunities in the other regional bloc.

The fact that Malawi has not initialled an Interim EPA alters its trade policy options with regard to regional integration. Being in COMESA, and where some COMESA members have initialled an Interim EPA, Malawi stands the risk of becoming a *de facto* party to the EPAs once the COMESA customs union is fully established. The same goes for SADC. Therefore, if Malawi decides to continue on the path of regional integration within the context of COMESA or SADC as is the indication at the moment, being out of EPAs is not a viable option unless such a decision is made collectively by all ESA or SADC countries.

3.3 Formulation and implementation of trade and industrial policies

The trade and industrial policy formulation in Malawi is done through a consultative process involving the public sector, the private sector and the civil society. There are two institutionalised consultative measures that have been put in place by government at different times. The Public – Private Dialogue (PPD) Forum which was established in 2003 is the apex consultative forum involving ministers, principal secretaries and chief executives of private and public companies as well as the heads of foreign missions and cooperating institutions. The PPD Forum is chaired by the Minister of Industry and Trade. The PPD Forum discusses issues that affect the private sector in Malawi and agrees on action plans. Under the PPD Forum is the Trade Policy National Working Group (TPNWG) which is a forum for officials at director level. The TPNWG was established in 1996 as a consultative forum for the SADC trade negotiations. The group was subsequently given the mandate to discuss all issues relating to trade and private sector development. It is, therefore, a forum for technical experts and is, among other things, used to discuss Malawi's position for the various trade negotiations with the private sector and other interest groups. Although it is called a trade policy forum, it also deals with issues relating to industrial development and private sector development as whole. It is co-chaired by the Secretary for Industry and Trade and a representative of the private sector. The above consultative structure is supported by *ad hoc* fora convened by the Ministry of Industry and Trade to tackle specific issues such as developing a position for trade negotiations or preparing for investment missions.

One of the major challenges of Malawi policy consultative mechanism is that the link between the PPD Forum and the TPNWG is loose such that issues discussed at the TPNWG are not formally presented to the PPD Forum. There is, therefore, a need to establish a mechanism for the two consultative groups to feed into each other's agenda.

The other challenge for the government is to ensure that the trade and industry policy making process is informed by research. Malawi does not have a policy institute as is the case in other countries. As a result there is very little use of research in public policy processes. In most cases, the research is limited to stakeholder consultations. As a result Government policies lack scientific back up support in terms of establishing their impact and effectiveness.

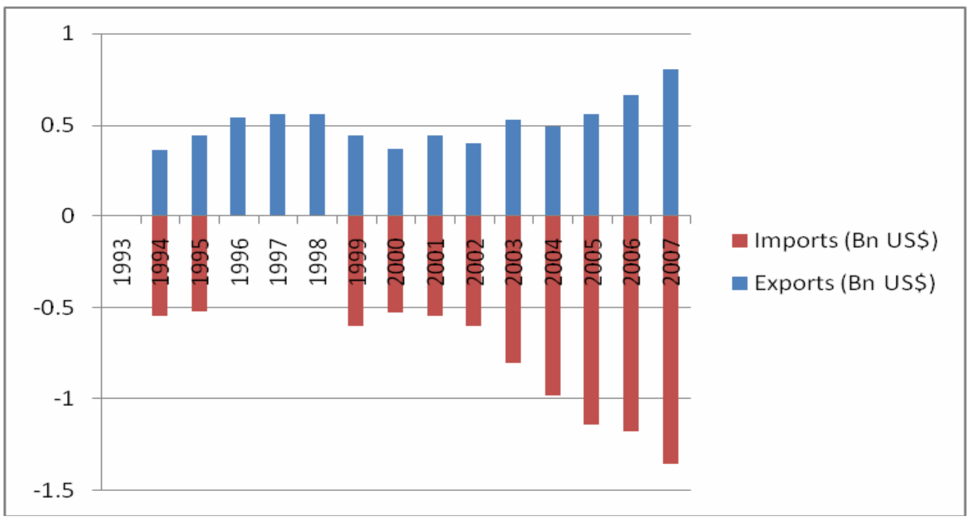
4.0 PERFORMANCE OF THE TRADE AND INDUSTRY SECTORS

4.1 Performance of the trade sector

After several years of implementing policy reforms in favour of the private sector, the performance of the trade and industry sector still remains poor. The contribution of both trade and industry to GDP remain low. As illustrated in Box 1, the contribution of the trade sector to GDP declined from 26 percent in 2000 to 23 percent in 2008, while the contribution of the industrial sector increased marginally from 18 percent to 23 percent during the same period. The marginal growth in industrial contribution to GDP reflects the challenges that Malawi is facing in its effort to diversify away from agriculture.

In volume terms, from 2003 to 2007, Malawi's exports increased on average by 14.7 percent each year while imports increased on average by 15.1 percent over the same period. As indicated in Figure 3, the country has experienced increasing trade imbalances.

Figure 3: TOTAL IMPORTS AND EXPORTS



Source: UN COMTRADE Yearbook (2008).

The structure of the country's trade has remained unchanged. Tobacco, tea and sugar still continue to dominate the country's export trade (table 4).

Table 4: Malawi's major export products (2001 – 2008, US$ Million, Percentage)

	2001		2002		2003		2004		2005		2006	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Tobacco	272.9	57.7	205.0	57.0	222.8	46.8	205.8	42.2	268.0	53.0	409.0	60.3
Tea	36.6	7.7	32.4	9.0	32.1	6.7	47.4	9.7	50.1	9.9	48.6	7.2
Sugar	57.6	12.2	30.7	8.5	97.4	20.4	72.7	14.9	45.8	9.1	38.7	5.7
Apperal and textiles	30.0	6.3	28.2	7.8	35.5	7.5	44.2	9.1	44.4	8.8	41.2	6.1
Cotton	4.7	1.0	3.0	0.8	4.5	0.9	20.5	4.2	15.7	3.1	13.7	2.0
Nuts	5.5	1.2	4.3	1.2	10.4	2.2	14.6	3.0	12.5	2.5	23.7	3.5
Pulses	3.1	0.7	2.5	0.7	4.6	1.0	5.6	1.2	2.8	0.5	4.6	0.7
Wood-sawn and plied	0.8	0.2	0.7	0.2	1.6	0.3	2.0	0.4	3.5	0.7	3.6	0.5
Natural rubber	2.5	0.5	1.8	0.5	2.4	0.5	3.7	0.8	2.1	0.4	5.0	0.7
Coffee	6.7	1.4	2.0	0.6	2.3	0.5	2.0	0.4	2.7	0.5	1.5	0.2
Spices	1.2	0.2	2.6	0.7	1.3	0.3	1.6	0.3	1.5	0.3	4.2	0.6
Hides and skins	0.5	0.1	0.4	0.1	0.3	0.1	0.4	0.1	0.6	0.1	0.8	0.1
Wooden furniture	0	0	0	0	0	0	0	0	2.4	0.5	3.3	0.5
Others	50.7	10.7	46.3	12.9	61.2	12.8	66.9	13.7	53.5	10.6	80.3	11.8
TOTAL	472.8	100	359.9	100	476.4	100	487.4	100	505.4	100	678.3	100

Note: original values in Malawi Kwacha have been converted into US$ using the annual exchange rate from the Reserve Bank of Malawi.
Source: Annual Economic Report 2009.

All the country's top ten export products are agricultural commodities except for textiles and apparel. From this it can be inferred that most of the industrial products are consumed on the domestic market. Indeed, Davies and Record (2006) find that only 14 percent of manufactured products are exported. Textiles and clothing make up the bulk of Malawian industrial product exports. As can be seen from table 2, this sector ranks number four on the list of Malawi's major export products.

With regard to export markets, Malawi continues to depend on the European Union and SADC as major markets which account for 40 percent and 31 percent of the country's total exports. Within SADC South Africa, Mozambique, Zimbabwe and Zambia are major trading partners. South Africa alone accounted for about 19% of the country's exports in 2005. Zimbabwe, which used to be a third most important export market for Malawi in the 1980s and 1990s has been overtaken by Mozambique which absorbs about 4% of Malawi's exports and Zimbabwe accounts for less than 2% of Malawi's total trade. The decline in Malawi's exports to Zimbabwe is due to the economic crisis that Zimbabwe is experiencing which has depressed demand for imports from Malawi. The establishment of the COMESA FTA in 2000 opened new export opportunities for Malawi's products which account for 12% of Malawi's exports. Kenya, Egypt and Uganda are Malawi's major export destination in COMESA.

It is evident from the foregoing discussion that Malawi is facing difficulties in meeting its policy objective of export diversification. However, data captured by the Malawi Investment Promotion Agency (MIPA) shows that the country has attracted substantial investments since 2004. As can be seen from table 5 below, the manufacturing sector has consistently received substantial amount of investment. One would, therefore, expect this trend to be reflected in the country's exports through a noticeable increase in exports of manufactured products. However, this is not the case, which suggests that most of these investments target the domestic market.

Table 5: Investments facilitated by the Malawi Investment Agency (Percentage)

SECTOR	1993 - 1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
AGRICULTURE	1.6	0.0	0.0	0.0	0.0	22.6	19.0	0.7	0.5	1.5	39.0	37.1
MANUFACTURING	42.1	80.8	4.6	40.2	67.2	25.5	68.8	56.8	29.5	22.7	19.5	21.1
CONSTRUCTION	7.1	14.7	1.3	37.8	0.0	3.9	0.0	0.0	3.6	1.2	0.0	0.0
MINING	40.8	3.1	0.0	0.0	0.0	5.2	0.0	0.0	0.0	72.5	18.8	2.8
COMMUNICATIONS	0.0	0.0	42.0	0.3	0.0	33.4	2.9	0.0	0.0	0.0	0.0	0.0
DISTRIBUTION	0.0	0.0	39.9	20.8	0.0	0.4	0.0	0.8	0.0	0.0	0.0	0.0
BANKING AND FINANCE	3.6	0.0	5.0	0.0	0.0	0.1	0.0	41.2	0.0	0.0	0.0	0.0
SERVICES	4.7	1.2	5.0	0.2	0.0	1.4	4.0	0.4	60.8	0.6	9.8	20.1
TOURISM	0.2	0.2	0.8	0.4	32.8	5.1	5.3	0.0	5.5	1.5	13.0	18.9
OTHER	0.0	0.0	1.4	0.3	0.0	2.3	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL :	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Malawi Investment Promotion Agency

Note: These investment statistics reflect only the investments facilitated by the Malawi Investment Promotion Agency. It is also important to note that these figures are only for new business establishments. This suggests that incentive schemes are not sufficient policy instruments to attract investment, particularly for Malawi which is landlocked and faces a high cost of doing business.

4.2 Performance of the industrial sector

The manufacturing sector in Malawi is dominated by food processing, production of beverages and textiles and clothing. Of these, it is only the textiles and clothing industry that has demonstrated potential for growth. The industry attracted substantial investment in the 1990s following the introduction of the Export Processing Zone Act which allows registered firms tax holidays and duty waivers on imported raw materials and capital goods. Consequently, its contribution to the GDP increased. It has, however stagnated at about 8 percent in the past three years.

The poor performance of the industrial sector in Malawi is more evident when one looks at the Index of Industrial Production (IIP). Table 4 shows the trend in the IIP between 2000 and 2006. Overall, the IIP went down from 111.5 in 2000 to 107.4 in 2006. The IIP for manufacturing also went down but from 93.1 to 77.3 using 1984 as the base year during the same period. Similarly the textiles and clothing industry, which is considered by government as an industry that holds the future for the country's industrialisation, also experienced reduction in the IIP.

Table 6: Index of Industrial Production

1984=100

	Manufactured Goods									
	Mainly for the Domestic Market									
	Consumer Goods									
	Food, Beverages and Tobacco	Clothing Footwear and Textiles	Other	Total Consumer Goods	Building and Construction	Total Domestic	Export goods	Total Manufacturing	Electricity and Water	Total General Industrial Production
Weights	***13***	***9***	***23***	***45***	***18***	***63***	***23***	***86***	***14***	***100***
2000	75.8	77.5	104.1	90.6	80.8	87.8	107.5	93.1	224.7	111.5
2001	67.8	63.2	87.4	76.9	63.8	73.2	101.5	80.7	231.7	101.9
2002	64.7	34.3	70.7	61.7	75.1	65.5	117	79.3	242.4	102.1
2003	53.7	34.4	66.5	56.4	72.4	61	120	76.7	237	99.2
2004	74.5	52.1	71.5	68.5	66.3	67.9	124.6	83.1	257.2	107.4
2005	67.6	57.7	66.9	65.3	58.5	63.6	114	76.9	273.3	104.4
2006	68.4	47.8	64.7	62.4	49.3	58.7	128.6	77.4	291.8	107.4

Source: National Statistics Office, Statistical Year Book 2008.

The drastic reduction in the IIP for textiles and clothing does not come as a surprise. Since its establishment in the 1990s, the industry has enjoyed a very favourable environment created by the Export Processing Zone (EPZ) and a bilateral trade agreement that Malawi maintained with South Africa. The bilateral trade agreement provided a ready market for the industry while the low labour cost in Malawi gave it a competitive edge in the South African market. This was not well accepted by the South African textiles and clothing manufacturers who persuaded the South African government to institute an embargo on Malawi's exports of garments in 1998. The reason given for instituting the embargo was that the garments did not meet the 25% value addition rule of origin. Apparently, the South African Revenue Service stopped recognising utility and overhead costs in the calculation of local content composition. This resulted in the closure of about nine companies by 2000 (Coughlin and Undenge, 2001). The remaining companies were saved by the coming in of the African AGOA of the American government and the SADC special arrangement for textiles and clothing trade in 2000.

Malawi's textile and clothing industries date back to the 1950s and 1960s. Each was largely focused on the domestic market with some regional sales. Each was afforded protection from competing products by high import tariffs. The liberalisation of imports in the early 1990s virtually wiped out the domestic garment industry as firms could not stand competition from cheap imports from Asia plus large quantities of second-hand clothes. However, following the introduction of the EPZ scheme and the existence of a bilateral trade Agreement with South Africa, the garments industry resurfaced. The country had, at one time, over thirty garment manufacturing companies. The companies survived only for a few years. Most of them closed around 1998 following the suspension of trade preferences by the South African Government who accused Malawian exporters of trans-shipment. The coming into force of the SADC Trade Protocol in 2000 and the passing of the AGOA by the US Government whose rules of origin were flexible enough gave some hope to the surviving firms.

The textile industry has also undergone a transformation. From being a giant in the 1970s, David Whitehead and Sons, the country's sole textiles mill, faced financial problems in 1990s due to international price pressures, high costs of finance and exchange rate instability as well as aging machinery. Currently the mill is trying to regain its former glory. The company has since been privatised but is still facing problems in regaining its ground. There is however, some ray of hope for the industry. A Chinese firm has invested US$25 million in an integrated textiles and clothing mill. This is expected to boost the textiles and clothing industry.

One striking characteristic of the textiles and clothing industry in Malawi is that it is not integrated. The bulk of the cotton that is produced is exported in semi-processed form and the garments manufacturers use imported raw materials.

The industry suffered another blow in 2005 when the Multifibre Agreement expired resulting in an erosion of preferences particularly in the United States of America which was not compensated for by the preferences afforded by AGOA. This led to some Chinese companies closing their operations in Malawi. Despite these challenges, the industry still continues to be a government priority. Lately, there have been heavy investments in the industry. A Chinese company has invested US$25 million in an integrated textiles and garments manufacturing facility which is expected to foster the integration of the textiles and clothing industry in Malawi. The investment covers the whole value chain, from production of cotton to garments manufacturing. This is expected to boost the industry's performance. However, as long as the industry relies on only a few export markets its future remains uncertain.

5.0 CONCLUSION AND RECOMMENDATIONS

Trade and industrial policies play a very crucial role in Malawi's development strategy. The country's high dependence on agriculture renders the pursuit of industrialisation an imperative rather than an option for Malawi. It is within this content that the Malawi government has prioritised trade and industry in its development strategy. However, the lack of harmony between the Integrated Trade and Industry Policy and the MGDS in certain respects may create inconsistencies in the implementation of trade and industry measures.

The poor performance of both the trade and industry sectors in the midst of numerous incentives is an issue that warrants a thorough probe. It is evident that tax holidays and duty-draw-backs are not sufficient incentives to encourage investments, particularly for Malawi which faces high transaction costs due to its landlocked status.

While regional integration has created opportunities, it is also a threat in that there is now more competition for investment. Therefore, for government to keep pace with the country's development needs, the following need to be considered:

(a) Revising the Integrated Trade and Industry Policy to keep it in line with the MGDS;

(b) Refraining from policy reversals as they undermine the credibility of government policies;
(c) Focusing on reducing the cost of doing business by putting in place transparent and easy-to-follow business establishment procedures;
(d) Evaluating the effectiveness of the incentive schemes currently in force; and
(e) As the government is seeking to promote industrialisation, focus should be made to base policy making on research. It would be instructive for government to establish a policy research institute or engage research institutions to do policy research which should inform public policy.

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