

MALAWI: COMPANY PERSPECTIVES

AN ITC SERIES ON
NON-TARIFF MEASURES



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Country report, part of a series of publications assessing the impact of Non-Tariff Measures (NTMs) on the business sector, based on a large-scale survey conducted in Malawi with companies directly reporting burdensome NTMs and the reasons why they consider them to be trade barriers; analyses survey findings and compares them to other sources on NTMs to identify regulatory, procedural and infrastructural obstacles in Malawi and its partner countries; covers food and agro-based products including tobacco, tea, sugar, cotton, pulses and other vegetables and oil seeds, manufacturing sectors; outlines policy options discussed at stakeholder meeting; includes NTM classification, and bibliographical references (pp. 85-86).

Descriptors: **Malawi, Non-Tariff Measures, Trade Policy, SMEs.**

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Acronyms

The following abbreviations are used:

AGOA	African Growth and Opportunity Act
ASWAp	Agricultural Sector Wide Approach
COMESA	Common Market for Eastern and Southern Africa
DARTS	Department of Agricultural Research and Technical Services
EU	European Union
FISP	Farm Input Subsidy Programme
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNTB	Group of Eminent Persons on Non-Tariff Barriers
GSP	Generalized System of Preferences
HS	Harmonized System
ICT	Information and communications technology
IQMS	Import Quality Monitoring Scheme
ISO	International Organization for Standardization
ITC	International Trade Centre
LDC	Least developed country
MAST	Multi-Agency Support Team
MBS	Malawi Bureau of Standards
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MEPC	Malawi Export Promotion Council
MFN	Most Favourite Nation
MIPA	Malawi Investment Promotion Agency
MK	Malawi kwacha
MoAFS	Ministry of Agriculture and Food Security
MoIT	Ministry of Industry and Trade
MRA	Malawi Revenue Authority
NTB	Non-tariff barrier
NTM	Non-tariff measure
OECD	Organisation for Economic Co-operation and Development
PO	Procedural obstacle
RBM	Reserve Bank of Malawi
SADC	South African Development Community
SGS	Société générale de surveillance
SME	Small and medium-sized enterprise
SPS	Sanitary and phytosanitary measures
TAMA	Tobacco Association of Malawi
TBE	Trade-related business environment
TBT	Technical barriers to trade
UNCTAD	United Nations Conference on Trade and Development
US\$	United States dollar
WTO	World Trade Organization

Executive summary

Introduction to non-tariff measures

With global economic liberalization and general tendency to eliminate or reduce tariffs, the relative importance of trade barriers resulting from Non-Tariff Measures (NTMs) has risen in recent decades. With increasing awareness of consumers about product properties, importing countries are implementing more regulations. Most of these regulations do not have protectionist objectives, but rather look for the preservation of health or the environment. However, compliance with those requirements may be beyond the reach of companies seeking to export, particularly for small and medium-sized enterprises (SMEs) in emerging and developing countries. Therefore, multilateral rules in the World Trade Organization (WTO) and most of the recent regional and bilateral trade agreements include provisions on NTMs. In this context, the analysis of the commercial impact of NTMs as well as technical cooperation with developing countries to build government and business capacities is moving into focus.

The International Trade Centre (ITC) is actively engaged in these efforts of research and cooperation. An important recent activity of ITC has been to conduct large-scale surveys of companies in developing and emerging countries. Gathering information about NTMs from companies addresses those who deal with trade impediments on a day-to-day basis. NTMs cover a wide range of policies such as technical regulations, sanitary and phytosanitary measures (SPS), certification requirements and other conformity assessments, quantitative restrictions, additional charges, financial measures. The ITC survey does not only focus on NTMs imposed by governments, but also looks at procedural obstacles (POs) that may hamper compliance of companies with these NTMs. Delays, institutional costs, excessive paperwork and lack of testing facilities are among the most common POs. Furthermore, the survey considers inefficiencies on the trade-related business environment (TBE). In close cooperation with local partners, ITC conducts the survey in about 30 countries around the world. Sub-Saharan Africa is one of the main target regions, with surveys already implemented in Malawi, Burkina Faso, Rwanda, Kenya, Mauritius and Madagascar in 2011/2012.

Country context of Malawi

Most Malawians (80%) live in the rural areas and only 20% in cities. Employment and livelihood of the vast majority of Malawians depends on agriculture. Manufacturing only accounts for low shares in gross domestic product (GDP) and employment. After years of food shortage and famine, farm subsidies and good harvests in 2007 started a period of growth exceeding the average of sub-Saharan Africa. Since 2008/09, growth and exports have been slowing down due to imbalances in the foreign exchange market. As the overvaluation and de-facto peg of the Malawi kwacha (MK) to the United States dollar (US\$) was overcome in May 2012, the pattern is likely to change.

Malawi's agricultural exports are highly concentrated on a few products. Tobacco is the key cash crop that makes Malawi an agricultural net exporter. Other traditional export crops are tea, cotton and sugar. Food exports and imports depend strongly on yearly harvests. Manufactured goods are mostly imported, with only minor export industries.

Malawi is member of the Free Trade Agreements (FTAs) of the South African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). As a least developed country, it also benefits from non-reciprocal tariff preferences of developed and emerging markets, such as the Generalized System of Preferences (GSP). Preferential tariffs in most of Malawi's export markets therefore allow duty-free exports if Malawian exporters comply with the respective rules of origin.

The European Union and Egypt (COMESA) are the main export markets for tobacco. Other agricultural and the few manufacturing exports tend to be destined for regional markets in SADC. The origin of imported goods also depends on the sector: agricultural and basic goods are imported from SADC; most manufactured products from emerging and developed economies.

Non-tariff measure survey methodology and implementation in Malawi

Supported by the Ministry of Industry and Trade (MoIT) of Malawi, the ITC survey took place between October 2010 and June 2011. In order to gain inputs for adjusting the general survey methodology to fit Malawian particularities, ITC staff met with a variety of public and private sector stakeholders in October 2011. To promote local capacity building, the Malawian survey company Kadale Consultants Ltd implemented the survey. Contacting the companies for the interviews relied on a business registry that ITC compiled with the cooperation of local partners. ITC representatives conducted further interviews with companies, associations and other stakeholders in May-June 2011.

There were two stages of interviews with exporting and importing company representatives. First, short phone interviews collected essential information about company characteristics, and whether they were affected by burdensome regulations or procedures in the last 12 months. In total, the survey comprised 129 phone interviews with exporting and importing companies. Second, face-to-face interviews were conducted with those companies facing obstacles to trade and willing to participate. For every product and partner country, companies provided detailed information on the NTMs and procedural obstacles (POs) they encountered. In Malawi, the survey included 65 face-to-face interviews.

Corresponding to the export composition of Malawi, most interviews with exporters focused on fresh food and agro-based products, followed by processed agro-based products. The survey also included manufacturing sectors and certain sub-sectors that were specially requested by local partners. Most interviews with importers looked at important manufacturing sectors such as chemicals, plastics, computers, telecommunication and consumer electronics, among others.

Aggregate results and cross-cutting issues

The ITC survey showed that 81.5% of exporting companies and 69.2% of importing companies faced burdensome NTMs and other obstacles to trade.

Exports

Exporters of fresh food and raw agro-based products reported impediments most frequently (87% of exporting companies). Malawi exports raw agricultural products to many developed markets. Particularly these countries apply strict controls of food and feed to ensure the health and well-being of consumers and the protection of the environment.

Technical measures, comprising technical requirements and conformity assessment, make up the majority of the cases of burdensome NTMs (75%). Technical requirements establish product specifications that exported products need to comply with in order to gain market access. Conformity assessment procedures, such as certification, provide proof about compliance with the underlying technical requirements. As in most other surveyed countries, for example Kenya, Rwanda and Burkina Faso, exporters in Malawi report more cases of burdensome conformity assessment (60%) than challenges with technical requirements (15%). This indicates that testing and certification are a bottleneck for Malawian exporters.

Among the NTMs applied by Malawi to the country's own exports, export licenses stand out with 49% of the reported cases. Export licenses are imposed on a domestic needs basis for a wide array of agricultural products. Every second mention of export-related burdensome procedures refers to extensive administrative delays with regard to the export licenses.

Export destination markets

The interviewed companies encounter burdensome NTMs in every fifth country to which they export. However, there are clear differences regarding which markets Malawian exporters find easier or more difficult to access.

Only 7% of the companies exporting to SADC countries face impediments in these markets. The result indicates that market integration in the SADC region has successfully advanced beyond tariffs, towards facilitation of non-tariff market access, for example through mutual recognition of certification. Regarding major COMESA markets, the share of affected companies was rather low in Kenya (17%), but very high in Egypt (100%).

The European Union (EU) is Malawi's largest export destination. With 28.6% of interviewed companies reporting one or more burdensome NTMs in this market, it is a relatively difficult region to access. Northern America shows similarly high shares of affected companies (33%).

Asia, especially China, is a growing market for Malawi's exports. The survey provides mixed results on NTMs faced by exporters in the region. For China and the Russian Federation, two of the largest markets, no burdensome NTMs were registered. In India, 25% of exporters were affected by challenging regulation. Companies exporting to smaller Asian markets reported NTMs more frequently.

Imports

During the time of the overvaluation of the MK and shortage of foreign currency, strict foreign exchange regulations had been put in place. Unpredictable delays in obtaining special authorizations for foreign exchange transactions from the Reserve Bank of Malawi (RBM) accounted for 65% of import-related NTM cases. However, following the liberalization of the exchange rate in May 2012, this authorization requirement was removed and additional inquiries to importers confirmed that the delays at RBM no longer occur.

Import inspections under the Import Quality Monitoring Scheme (IQMS) made up 19% of the reported NTM cases. Reports of additional charges (8% of cases) mostly related to IQMS fees and a quality development cess.

Transit

As a landlocked country, transit conditions are crucial for Malawi's exports and imports. There are three major transit corridors: Beira and Nacala in Mozambique, and Durban in South Africa. In face-to-face interviews, 23 companies reported serious procedural and infrastructural challenges during transit – 19 of them in Mozambique.

Along both Mozambique routes, most companies experienced substantial delays that varied between 2 weeks and 3 months. Especially the unpredictability of these delays was a challenge for business planning and customer relations. Exporters lamented congestion due to a lack of port infrastructure and ships. A fifth of the interviewed companies had to pay charges to have their goods "escorted" from the border post to Beira or Nacala. Exporters claimed arbitrary behaviour of officials from Mozambique when requiring such escorts and when setting the respective fees. Furthermore, two companies pointed at a low level of security of goods, particularly at Nacala. Their cargo was damaged on several occasions, or even stolen.

Despite being more than twice as far away as either port in Mozambique, Durban is an alternative transit corridor for some exporters. While freight costs of the route are prohibitive for some exporters, delays at the port are much shorter and reliability higher. Only seven exporters reported obstacles during transit via Durban. Exporters tend to choose Durban together with importing customers if these require timely delivery and are willing to pay the extra costs.

Agriculture

Technical measures applied by partner countries affect products representing almost 90% of Malawi's export value. Conformity assessment is reported as the major obstacle in 82% of cases within the category of technical measures. The recurring underlying impediment is the fact that the Malawi Bureau of Standards (MBS), as the national standards body and certification focal point, is not an internationally accredited facility. Therefore, importing countries in North America, the EU and Asia do not recognize technical certificates of MBS. Exporters need to revert to private sector certification facilities, which imply additional costs for them. Due to recognition of MBS certificates, this issue does not affect exports to partner countries in SADC and COMESA.

In addition to partner countries' requirements, exporters also reported challenges with domestically mandated export inspections and certification requirements. Delays occurred at MBS and at the Research Stations of the Department of Agricultural Research and Technical Services (DARTS) and lasted between three days and four weeks. Conformity assessment in both partner country and domestic institutions can be redundant. If companies need to obtain technical certificates from internationally accredited private sector facilities in order to export to developed markets, then additional controls by Malawian institutions imply surplus costs.

Export licenses are required for a number of agricultural products. Exporters could generally obtain the export licenses from MoIT and the Ministry of Agriculture and Food Security (MoAFS), but with delays of between one week and two months. The main obstacle therefore lies in the delays to obtain the license, not in a quantitative restrictiveness of the licensing itself. In years of weaker harvests, however, exports may be quantitatively restricted.

Results of important sub-sectors

Tobacco makes up 55% of Malawi's total exports. The high dependency on this product and anti-smoking legislation in many developed country pose a risk for Malawi's economy. Most large tobacco merchants in Malawi are subsidiaries of companies in the United Kingdom and United States and hardly face trade impediments in their parent company's markets. However, exporters report a number of challenging specific measures in the important Egyptian market, including a lack of recognition of Malawian certificates. Tobacco exporters also report a duplication of domestic inspections with partner countries' conformity assessment procedures.

Tea exporters have long-established customer relations with clients in the United Kingdom and in Africa. Technical measures and certification are not a challenge with these partners. Yet, in smaller markets like Australia, Japan, United Arab Emirates and Sri Lanka, such challenges do arise. Domestically, export licensing procedures, as discussed above, delayed exports substantially.

Cotton exports are hardly affected by NTMs. This result may stem from the fact that many domestic ginners are subsidiaries of multinational firms, exporting in established frameworks to multinational buyers.

Pulses, other vegetables and oil seeds are promising export products, which are also prioritized in Malawi's Agricultural Sector Wide Approach (ASWAp). Exporters in the sub-sector are particularly affected by delays caused by the export licensing scheme. Certification requirements by partner countries and the lack of accredited domestic testing facilities are the second major impediment to exports.

Manufacturing

Manufacturing exports only amounted to a value of US\$ 105 million in 2010. The vast majority of exports is destined for regional markets in the SADC region (76%). Regional trade has also been the lone driver in export growth of manufactured products with average annual growth rates of 8% since 2001. In these markets, Malawian exports hardly face any burdensome NTMs.

Total manufacturing imports have grown at an average annual rate of 16% since 2001. The resulting worryingly large trade deficit of US\$ 1,107 million (excluding fuels, 2010) is likely to diminish with the aforementioned recent liberalization of the exchange rate. However, imports of manufactured products remain vital for Malawi's economy. With fertilizers, chemicals for crop protection, transport equipment and non-electrical machinery as the main imports, Malawi's import composition exhibits a focus on value addition and economic development. Many of these products can be imported free of duty.

The special authorization requirement through RBM for import transactions worth more than US\$ 50,000 was removed after the change of the exchange rate regime. The main challenge for importers, reported by 75% of importing companies during the survey, has therefore been eliminated.

Manufacturing importers mentioned burdensome conformity assessment procedures in 18% of the cases. They refer to IQMS inspections at MBS, which cause delays and additional costs. The duration of delays diverged between a few days and up to weeks and months. In an additional interview, MBS pointed out that some of the time needed is inevitable due to the nature of tests required for certain products, but also

acknowledged a lack of resources leading to further delays. MBS takes into account the compliance record of importers and exporting partners abroad. For sensitive products, like chemicals, which are imported from a previously unknown exporter, MBS requires a pre-shipment inspection of a sample and also detains the actual imported consignment until inspections are completed. If exporter and importer have a positive record, the imported product is already allowed to enter Malawi while MBS performs tests on a sample.

The costs of the inspections are borne by the importers. The IQMS fee has fixed and variable price components and is charged for every consignment. Importers reported costs of MK 30,000-50,000 (US\$ 110-190 at August 2012 exchange rates) or 1-2% of import value per consignment. Other charges are a Quality Development Cess, also by MBS, and customs processing/servicing fees of the Malawi Revenue Authority (MRA). Altogether, some exporters said that these charges add up to significant amounts, accounting for 8% of the reported NTM cases on manufacturing imports.

Conclusions and policy options

In close collaboration with MoIT, ITC organized a full-day stakeholder meeting. It is an essential part of the ITC NTM project to present and validate survey results, discuss the public sector's perspective, and explore concrete policy recommendations. Almost 50 public and private sector stakeholders participated in the roundtable in Lilongwe, Malawi, on 11 October 2012.

Reassess export licensing for non-essential foods and facilitate procedures

Food security is an important issue in Malawi. Export licenses on essential food commodities therefore have an understandable rationale. Nevertheless, they are also applied to non-essential food products and cash crops like tea and cotton. The export licenses are instituted on a needs basis to a varying list of products to ensure food security, health and safety people, animals and plants. However, health and safety are ensured through export inspections and sanitary requirements in the importing countries. Therefore, export licensing for non-food commodities should be reassessed. For food commodities, a temporary suspension of the export licensing scheme should be considered in years of good agricultural yields in order to avoid any delays in procedures.

The survey showed that unpredictable delays were the main obstacle of export licensing, not quantitative restrictiveness. Procedures at the emitting institutions, MoAFS and MoIT, are cumbersome. MoAFS scrutinizes applications on a case-by-case basis, and licenses require the Minister's approval at MoIT. MoAFS should clearly define and publish the evaluation criteria, and, in the medium-term, strive towards an automatized procedure based on food security data. At MoIT, approvals need to be permanently delegated to lower level technical staff. Easy procedures at the Tobacco Control Commission (TCC), where tobacco export licensing is a matter of minutes, can serve as an example of best practice.

MRA also pointed out that the paper-based licensing was prone to forgery. Therefore, when the export consignment arrives at the border, MRA checks back with MoIT whether the license is genuine. This additional delay should be averted through a system that would give MRA prior notification of incoming licensed consignments.

Advancing further in trade facilitation through centralizing procedures in a 'Single Window' should be given a high priority in the medium-term agenda of MoIT.

Accredit MBS internationally to facilitate extra-regional trade and strengthen MBS training activities

While SADC and COMESA partners usually recognize MBS certificates, access to developed countries requires the accreditation of MBS according to ISO standards. MBS is now pursuing this goal with the support of the EU, but needs full government support to succeed in this major undertaking within the established four-year roadmap until 2016.

Accreditation of MBS is likely to have a great impact on exports. However, in order to fully benefit from it, the private sector needs to develop capacities to comply with international standards. MBS is already active in training exporters on quality requirements and conformity assessment procedures. These trainings should be expanded and address SMEs more systematically.

Reduce mandatory export inspections and let export quality be market-driven

Complaints in the survey often referred to delays and duplicated inspection and certification procedures. If destination markets require internationally accredited certification from an exporter, additional export inspections by MBS or DARTS should be avoided. Eliminating this duplication of conformity assessment would not only unburden exporting companies, but also open up capacities at MBS that struggles with the high demand for their services. If exporters voluntarily seek testing services from MBS, they are already free to do so under the Export Quality Certification Scheme.

Demand at a business-to-business level should determine product quality and certification. Malawi's forthcoming National Export Strategy also highlights that the role of MBS should be trade facilitation through provision of services, and not the regulation of export quality standards. Domestically mandated quality standards that exceed the demands of the destination market will reduce Malawian exporters' competitiveness in product pricing on these markets.

Avoid duplication of import inspections and increase transparency for the private sector

IQMS has the legitimate aims to guarantee the quality of imported products and to ensure the safety of consumers, animals and plants. Nevertheless, to disburden importers and spare MBS capacities, conformity assessment should not be duplicated between foreign certification, MBS pre-shipment inspections and final consignment inspection. Recognising certification from SADC, COMESA and internationally accredited institutions may at least replace MBS pre-shipment inspections. Should transport conditions invalidate previous conformity assessment, MBS should clearly define and communicate to importers the respective products, transport types and routes that are affected. If a final inspection thus remains mandatory, foreign certification and pre-shipment inspections should only be voluntary.

MBS should systematically assess the differences between domestic and foreign technical requirements, in particular with regard to SADC and other regional partners. MBS may then evaluate increasing the recognition of foreign certificates. The government may also actively pursue formal mutual recognition agreements and harmonization of standards with SADC and COMESA partners.

MBS also needs to streamline inspection procedures and minimize administrative delays. Apart from the actual length of delays, importers need more transparency and predictability about the time required at MBS. First, MBS may communicate the minimum times required for tests for each product. In the medium-term, based on data from a recently implemented electronic inspection tracking system at MBS, average and maximum delays of inspections should be published. In the medium- to long-term, MBS should also make the inspection tracking system accessible to its customers.

Maintain flexible exchange rate

The valuation of the domestic currency is a macroeconomic issue and has effects beyond trade. However, the mayor procedural hurdle of special import authorizations was removed with the liberalization of the exchange rate in May 2012. The devaluation of the MK is likely to boost exports and improve foreign currency stocks. From a business and trade perspective, the flexible exchange rate is a major improvement and should be maintained.

Introduction to non-tariff measures

The growing role of non-tariff measures in trade

Over several decades, trade liberalization has been used as a development tool based on evidence that benefits accrue to countries actively engaged in world trade. Multilateral, regional and bilateral trade negotiations as well as non-reciprocal concessions have led to a remarkable reduction in global, average tariff protection. With favourable market access conditions, international trade has soared to previously unseen levels, raising overall welfare and standards of living.

Nevertheless, misemployment of non-tariff measures (NTMs) may undermine the impact of falling tariffs. Although the sound use of NTMs to ensure consumer health, environmental protection or national security is legitimate, evidence suggests that countries are resorting to NTMs as alternative mechanisms to protect domestic industries. NTMs have been negotiated within the General Agreement on Tariffs and Trade and at the World Trade Organization (WTO) since the Tokyo Round (1973–1979) and are increasingly dealt with in regional and bilateral trade agreements. NTMs have gained importance, with many practitioners considering that they have surpassed tariffs in their trade-impeding effect.

Being ‘defined by what they are not’,¹ NTMs comprise a myriad of policies other than tariff duties. NTMs are complex legal texts, specific to the product and applying country. They are thus more difficult to quantify or compare than tariffs.

NTMs particularly concern exporters and importers in developing and least developed countries (LDCs), who struggle with complex requirements. Firms in these countries often have inadequate domestic trade-related infrastructure and face administrative obstacles. Therefore, NTMs that would not normally be considered as very restrictive can represent major burdens in LDCs. In addition, the lack of export-support services and insufficient access to information on NTMs put pressure on the international competitiveness of firms. Hence, both NTMs applied by partner countries as well as domestic burdens have an impact on market access and keep firms from seizing the opportunities created by globalization.

Non-tariff measures, their classification and other obstacles to trade

Obstacles to trade are a complex and diverse subject. Before going into a detailed analysis, it is worth looking at both their terminology and classification.

The concept of NTM is neutral and does not imply a direction of impact. They are defined as ‘policy measures, other than customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both’.²

In contrast, the term non-tariff barrier (NTB) implies a negative impact on trade. The Multi-Agency Support Team (MAST) and the Group of Eminent Persons on Non-Tariff Barriers (GNTB) proposed that NTBs be a subset of NTMs with a ‘protectionist or discriminatory intent’.³

Given that legitimate reasons – including the protection of human, animal and plant health – may lead to NTMs, this report avoids making judgements on intentions. Hence, the term NTM is generally used. By design, the ITC survey only captures NTMs that cause major difficulties for trading companies. NTMs analysed in this report thus refer to ‘burdensome NTMs’.

The diversity of NTMs requires a classification system. The ITC survey is based on an international classification developed by MAST, incorporating minor adaptations to the ITC business survey approach.⁴ While the actual classification and data collection go into further detail, the following distinctions and terms are used in this report:

¹ Deardorff and Stern (1998).

² Multi Agency Support Team (2009).

³ *Ibid.*

⁴ For further details on MAST NTM classification, see appendix II.

- Technical measures refer to product-specific requirements such as tolerance limits of certain substances, labelling standards or transport conditions. They can be subdivided into two major categories:
 - Technical requirements – technical barriers to trade (TBT) or sanitary and phytosanitary measures (SPS);
 - Conformity assessment, like certification or testing procedures needed to demonstrate compliance with underlying requirements.
- Non-technical measures comprise the following categories:
 - Charges, taxes and other para-tariff measures –in addition to customs duties;
 - Quantity control measures like non-automatic licences or quotas;
 - Pre-shipment inspections and other formalities like automatic licenses;
 - Rules of origin;
 - Finance measures like terms of payment or exchange rate regulations;
 - Price control measures.

Apart from the aforementioned measures imposed by the importing country, those applied by the exporting country constitute a separate category. It must be noted that NTMs vary widely even within these broad categories.

In order to provide a richer picture of the problems companies face, the survey also looks at procedural obstacles (POs) and at the trade-related business environment (TBE).⁵ POs refer to practical challenges directly related to the implementation of NTMs. For instance, problems caused by the lack of adequate testing facilities to comply with technical measures or excessive paperwork in the administration of licenses. Inefficiencies in the TBE may have similar effects, but occur unrelated to specific NTMs. Examples include delays and costs due to poor infrastructure or inconsistent behaviour of officials at customs or ports.

The importance of company perspectives on non-tariff measures and procedural obstacles

In the literature, different methods have been used to evaluate the effects of NTMs. An early approach employed a concept of incidence with NTM coverage ratios. For example, Laird and Yeats (1990) found a dramatic surge of NTM incidence in developed countries between 1966 and 1986 – a 36% increase for food products and an 82% increase for textiles. Such studies rely on extensive databases mapping NTMs per product and applying country. The largest database of official government-reported NTMs used to be the Trade Analysis and Information System (TRAINS) published by the United Nations Conference on Trade and Development (UNCTAD), but data has been incomplete and updates irregular.

In a multi-agency effort, ITC, UNCTAD and the World Bank are currently collecting data for a new, global NTM database with a focus on TBTs and SPS. The new ITC Market Access Map already features information about NTMs.⁶ However, as complete as such a database may be, it will tell little about the impact of NTMs on the business sector nor will it provide information about related POs.

The two main approaches to evaluating the impact of NTMs include quantification techniques and direct assessment.

⁵ For further details on the systematic classification of POs and inefficiencies in the TBE used in the survey, please refer to appendix III.

⁶ The new Market Access Map is available at <http://www.macmap.org>.

In the case of quantification techniques, several academic studies have quantitatively estimated the impact of NTMs on either trade quantities or prices. Such studies have either focused on very specific measures and individual countries⁷ or have statistically estimated the average impact from large samples of countries and NTMs.⁸ Excellent overviews are provided by Deardorff and Stern (1998) as well as by Ferrantino (2006). Such academic articles provide an important insight into the quantitative impacts of NTMs. However, these studies are too specific or too general to deliver a useful picture of NTM protection to the business sector and to national policymakers. Quantitative estimations of the effects of NTMs rarely allow for the isolation of the impact of NTM regulation itself from related POs or inefficiencies in the TBE.

The second approach to evaluating the impact of NTMs is direct assessment through surveys. The Organisation for Economic Co-operation and Development (OECD) compiled the results of 23 business surveys on NTMs previously conducted.⁹ Overall, technical measures, additional charges and general customs procedures were identified as the most burdensome trade barriers. It is worth noting that of the 10 categories that were evaluated, quotas and other quantitative restrictions, an important trade policy instrument only a few decades ago, ranked fifth. While this survey-of-surveys gives a general indication of the business sector's concerns with NTMs, the majority of the surveys covered a restricted set of partner countries and products. In addition, the share of surveys from developing countries was generally low.

The ITC programme on NTMs fills the gap left by the aforementioned studies since it provides detailed qualitative impact analysis and directly addresses key stakeholders. Launched in 2010, it incorporates large-scale company surveys on NTMs, POs and inefficiencies in the TBE. Furthermore, the ITC NTM surveys evaluate all major export sectors and all importing partners. By 2013, ITC aspires to cover 30 developing countries. This report presents results of the survey in Malawi.

The ITC survey allows companies to directly report the most burdensome NTMs and the way in which these impact their business. Exporters and importers deal with NTMs and other obstacles on a day-to-day basis. Therefore, they know best the challenges they face, rendering a business perspective on NTMs indispensable. At the government level, an understanding of companies' key concerns with regard to NTMs, POs and TBEs can help define national strategies geared to overcome obstacles to trade.

The report is structured as follows: Chapter 1 provides a brief overview of Malawi's economy with particular focus on trade and trade policy. Chapter 2 then presents the methodology and implementation of the ITC survey in Malawi. Chapter 3 analyses the results of the survey in three main sections. After aggregate and cross-cutting results in a first section, the following two sections look at challenges faced by exporters and importers in agriculture and manufacturing. Chapter 4 concludes and provides policy options.

⁷ Calvin and Krissoff (1998); Yue, Beghin and Jensen (2006).

⁸ Disdier, Fontagné and Mimouni (2008); Dean et al. (2009); Kee, Nicita and Olarreaga (2008); Kee, Nicita and Olarreaga (2009).

⁹ Organization for Economic Co-operation and Development (2005).

Chapter 1 Country context of Malawi

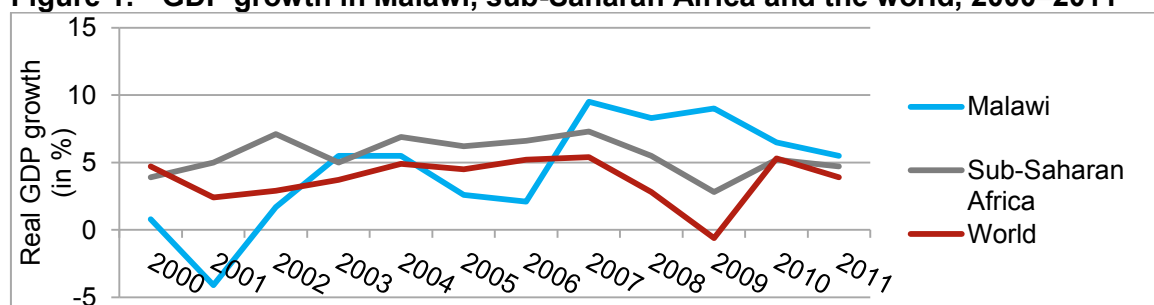
1. Country snapshot: General economic situation, sector composition and infrastructure

Malawi is a landlocked country in sub-Saharan Africa bordering Mozambique, the United Republic of Tanzania and Zambia. With a per capita GDP of US\$ 343 in 2011, Malawi classifies as a low-income country. The vast majority of Malawians (80%) live in rural areas and only 20% in cities. In 2004, around 52% of the Malawian population lived below the national poverty line, with higher rates in rural areas (56%) than in urban parts of Malawi (25%) (World Bank, 2011a).

After years of food shortage and famine, farm subsidies and good harvests in 2007 started a period of growth exceeding the average of sub-Saharan Africa. Since 2008/09, growth has been slowing down due to imbalances in the foreign exchange market, fuel and electricity shortages (figure 1). While the services sector contributes a large share to GDP, the employment and livelihood of the vast majority of Malawians depends on agriculture. Manufacturing only accounts for low shares in GDP and employment (figure 2).

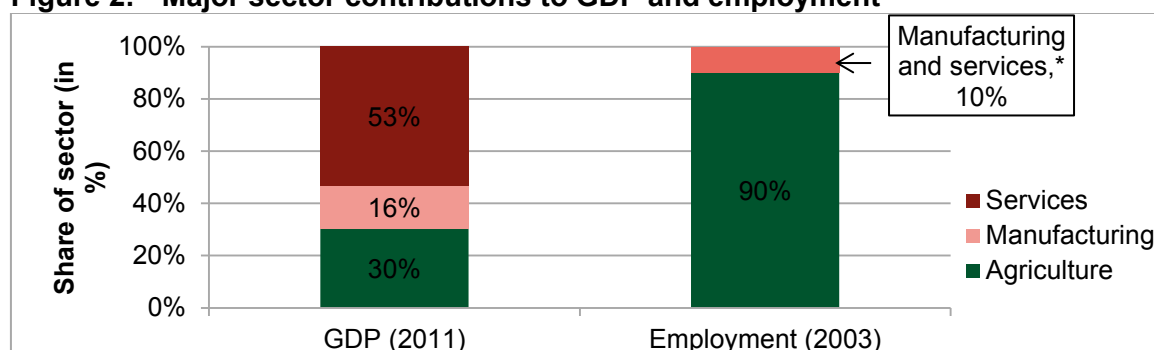
As a landlocked country, Malawi's transport infrastructure is crucial for trade. Transport services perform relatively well in a regional comparison, but physical infrastructure is a bottleneck. Access to information and communications technology (ICT) is underdeveloped (table 1).

Figure 1: GDP growth in Malawi, sub-Saharan Africa and the world, 2000–2011



Source: International Monetary Fund (IMF), 2012.

Figure 2: Major sector contributions to GDP and employment



Source: Central Intelligence Agency, 2012.

* Employment data disaggregating between manufacturing and services is not available.

Table 1: Quality of transport and communications infrastructure

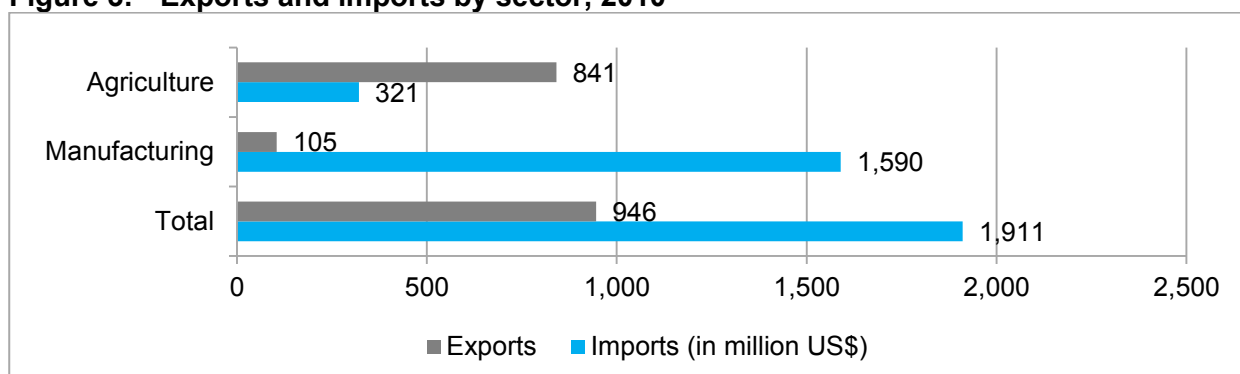
Indicator	World rank
Availability and quality of transport infrastructure	107 (out of 132)
Availability and quality of transport services	88 (out of 132)
Availability and use of ICTs	130 (out of 132)

Source: World Economic Forum, 2012.

2. Aggregate trade patterns

Tobacco is the key cash crop that makes Malawi an agricultural net exporter. Food exports and imports depend strongly on yearly harvests. Manufactured goods are mostly imported. Malawi's overall trade balance was strongly negative in 2010 (figure 3). As the overvaluation and de-facto peg of the MK to the US\$ were overcome in May 2012, the pattern is likely to change. Malawi's agricultural exports are highly concentrated on a few products, especially on tobacco. Other traditional export crops are tea, cotton and sugar. Manufacturing exports are more diversified (table 2).

Figure 3: Exports and imports by sector, 2010



Source: ITC calculations based on Trade Map data. Excluding minerals and arms.

Table 2: Product diversification of exports

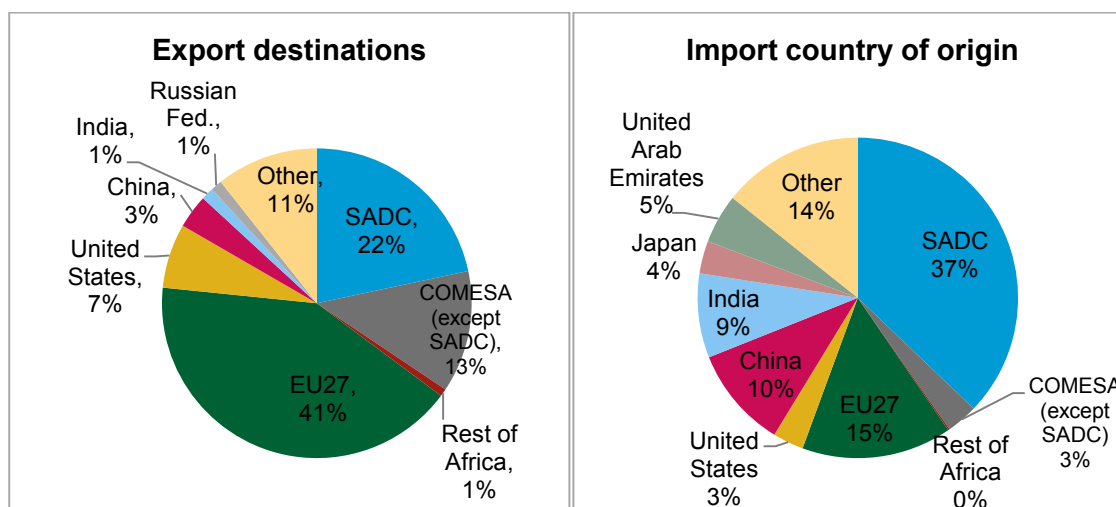
Export sector	HS 2-digit product chapters accounting for 95% of exports	HS 6-digit products accounting for 95% of exports*
Agriculture	6	14
Manufacturing	19	167

Source: ITC calculations based on Trade Map data, 2011. Excluding minerals and arms.

* The Harmonized System (HS) classifies about 5,300 products at the 6-digit level, and 99 chapters at the 2-digit level.

The European Union and Egypt (COMESA) are the main export markets of tobacco. Other agricultural and the few manufacturing exports tend to be destined for regional markets in SADC. The origin of imported goods also depends on the sector: agricultural and basic goods are imported from SADC; most manufactured products from emerging and developed economies (figure 4).

Figure 4: Export destinations and import countries of origin, 2010

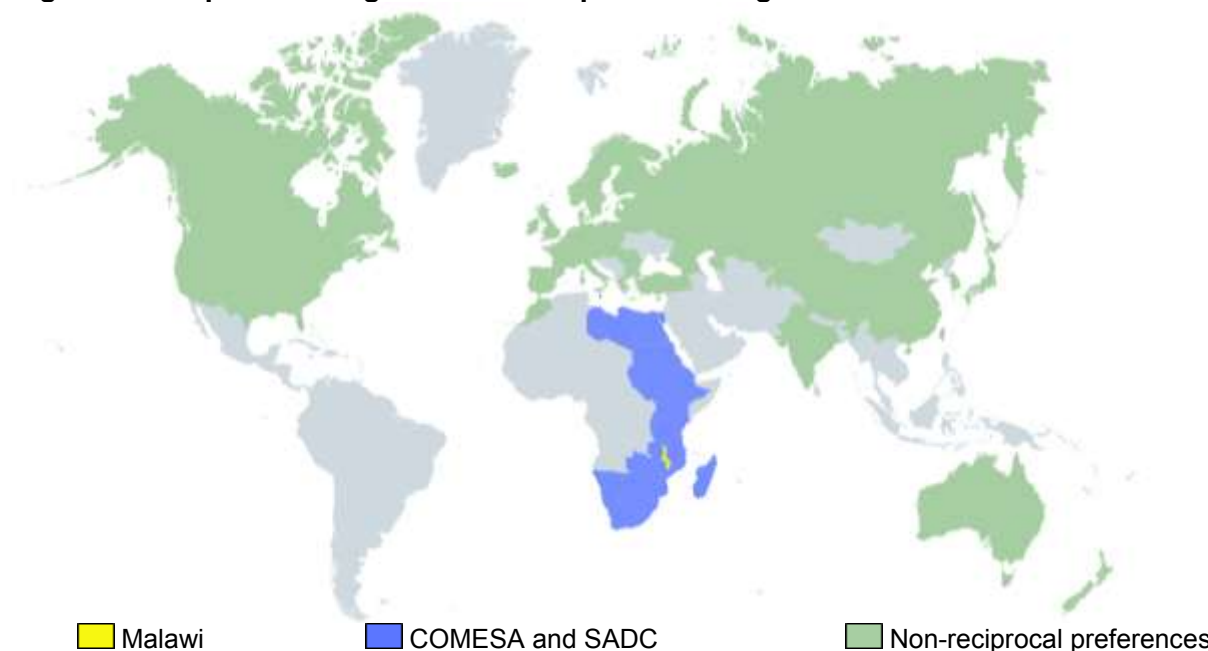


Source: ITC calculations based on Trade Map data. Excluding minerals and arms.

3. Trade policy and tariff market access

Malawi is member of two regional free trade agreements (FTAs): the South African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). As a least developed country, it also benefits from non-reciprocal tariff preferences of developed and emerging markets, such as the Generalized System of Preferences (GSP).

Figure 5: Map of trade agreements and preferences granted to Malawi



Source: ITC illustration based on Market Access Map data, as of May 2012.

Most Favourite Nation (MFN) tariffs on agricultural goods exported by Malawi are still high; those for manufactured goods generally lower. However, preferential rates in SADC, COMESA and under non-reciprocal preferences often allow duty free exports to most major markets, if Malawian exporters comply with the respective rules of origin. The preferential margins granted by India are minimal and only 57.5% of Malawi's agricultural exports to the United States are duty free (table 3).

Table 3: Tariff market access in major markets

	Malawi's major export markets (2009)	MFN duty of traded tariff lines, weighted average ^{a/}	Preferential tariff, weighted average ^{b/}	Duty-free imports in terms of value ^{lb}
Agriculture	1. European Union	70.3%	0.0%	100.0%
	2. India	31.0%	30.4%	0.0%
	3. Russian Federation	5.0%	0.1%	99.7%
	4. United States	134.4%	2.6%	57.5%
	5. South Africa	25.6%	0.0%	99.8%
Manufacturing	1. South Africa	24.9%	0.0%	100.0%
	2. Mozambique	8.4%	0.5%	95.5%
	3. United States	26.7%	0.0%	99.9%
	4. Zambia	16.3%	0.0%	100.0%
	5. Egypt	8.5%	0.0%	100.0%

Source: WTO, ITC, UNCTAD. World Tariff Profiles 2011.

a/ Weighted averages of tariff rates are calculated using actual bilateral trade values as reported by the importing destination countries.

b/ Preferential tariff calculations look at the potentially eligible tariff lines under the relevant trade agreements.

Chapter 2 NTM Survey methodology and implementation in Malawi

In the framework of the ITC programme on NTMs and in cooperation with local partners in Malawi, the ITC conducted a large-scale company survey on NTMs and other obstacles to trade, in order to increase transparency and help better understand the trade impediments faced by the Malawian business sector.

This chapter provides information on the country-specific survey implementation, the sampling methodology, basic characteristics of the survey sample and an introduction to the approach of analysis. The appendices go into further detail: appendix I contains the global methodology, which is a core part identical in all surveyed countries. Appendix II on the NTM classification and appendix III on procedural obstacles provide the taxonomy for arranging reported measures into an organized hierarchical system. Appendix IV lists interviewed experts and stakeholders.

1. Survey implementation and sampling methodology

1.1. Timeline and principal counterparts

Supported by the Ministry of Industry and Trade (MoIT) of Malawi, the ITC survey took place between October 2010 and June 2011.

In order to gain inputs for adjusting the general survey methodology to fit Malawian particularities, ITC staff met with a variety of stakeholders in October 2010: Malawi Confederation of Chambers of Commerce and Industry (MCCCI), Malawi Bureau of Standards (MBS), Malawi Export Promotion Council (MEPC), Malawi Revenue Authority (MRA), Tea and Coffee Association of Malawi, Cotton Development Trust, Textiles and Garments Association of Malawi, Malawi Economic Justice Network (MEJN), Indigenous Business Association of Malawi (IBAM), Tobacco Association of Malawi (TAMA), Malawi Investment Promotion Agency (MIPA), Economics Association of Malawi (ECAMA), and Grain Traders and Processors Association.

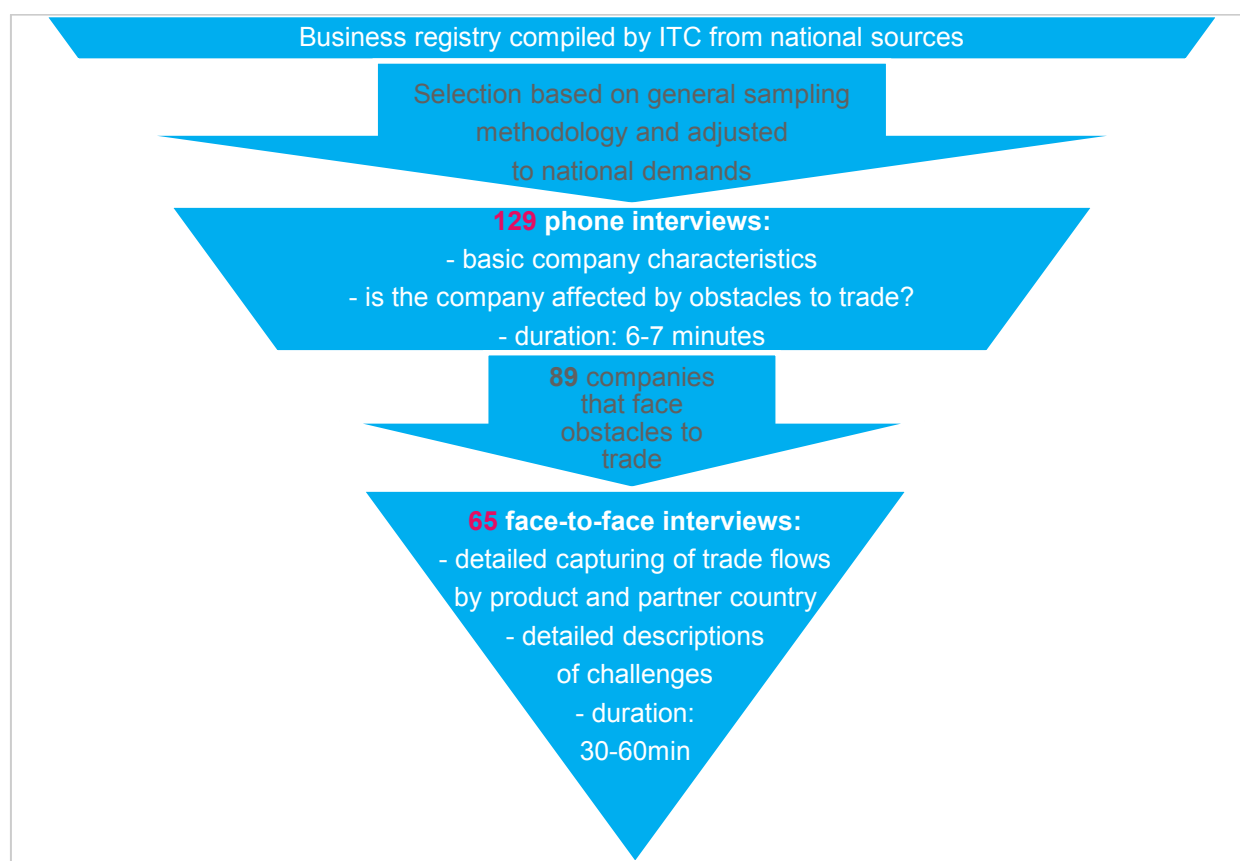
To promote local capacity building, a Malawian survey company implemented the survey. Project managers and interviewers of Kadale Consultants Ltd received a three-day intensive training by ITC staff on NTMs, the NTM survey methodology and the NTM questionnaires in October 2010. The trained interviewers then surveyed Malawian exporting and importing companies on the phone and face-to-face until May 2011.

ITC representatives conducted further interviews with companies, associations and other stakeholders in May and June 2011.

1.2. Survey process outline and modalities

As illustrated in figure 6, there are two stages of interviews with exporting and importing companies: a basic interview on the phone (see section 1.4) and detailed face-to-face interviews with those companies facing obstacles to trade and willing to participate (see section 1.5). With the cooperation of local partners, ITC compiled a business registry that allowed contacting companies for the interviews (section 1.3).

Interviews were conducted based on generic ITC questionnaires, which were adjusted to local requirements. The questionnaires were in English. Typically, the survey respondents were general managers or the company's employee responsible for the export and import process.

Figure 6: Stages of the NTM survey and general participation in Malawi

1.3. Business registry and sample frame

The general survey methodology aims to cover all export sectors that account for at least 2% of a country's total export value.¹⁰ In Malawi, four sectors were included by default: fresh food and raw agro-based products; processed food and agro-based products; clothing; and miscellaneous manufacturing. Further consultations with stakeholders in Malawi (see section 1.1) identified additional sectors and products that should be included in the survey. Some of these specially emphasized products were already covered by the aforementioned standard sectors (pigeon peas, cotton, sweet biscuits, natural rubber and plastic packaging products). Other products were added to the sample frame (textiles, wood and ethanol).

Focussing on these sectors, the business registry for the survey in Malawi was created from various lists of companies provided by national sources including MRA, MoIT, MEPC, MBS and the Coffee Association of Malawi. However, the databases diverged in terms of data quality and the number of companies covered. Especially obtaining contact details and information about the export sector posed a challenge.

With the initial information, ITC merged a business registry with 167 companies in the selected export sectors with contact information. Additional painstaking efforts by a local ITC consultant added further 93 contact details from hard copy documents. The final database provided to Kadale Consultants Ltd for phone interviews thus contained 260 exporting companies. Challenges arose given that many phone numbers turned out to be outdated or false. Nevertheless, the compiled business registry represents the most comprehensive source of company data available.

¹⁰ Sectors are based on the ITC classification, which is composed of two agricultural and eleven manufacturing sectors. Minerals, petroleum and arms are generally excluded. See appendix I. A detailed list of products composing the ITC classification of sectors is available upon request.

The survey also looks at imports. Based on data from MRA, a local ITC consultant generated a business registry with 489 importing companies. The survey methodology also aims at covering all import sectors that represent more than 2% of Malawian import value. In the case of Malawi, these are all sectors of the ITC sector definition, except clothing and leather manufactures.¹¹

1.4. Phone interviews

In total, the survey comprises 129 phone interviews, thereof 23 with only exporting companies, 42 with companies that both export and import, and 64 with only importing companies. The phone interviews focus on key information, like the company's export and import sectors, company size and whether they were affected by burdensome regulations or procedures in the last 12 months. The reference period of the survey in Malawi is therefore October 2009 – June 2011. By identifying 89 affected exporting and importing companies, the phone interviews deliver the basis for subsequent and more detailed face-to-face interviews.

Corresponding to the export composition of Malawi, most interviews with exporters focused on fresh food and agro-based products, followed by processed agro-based products (see figure 7). Various manufacturing sectors were also looked at, including exporters of textiles, clothing, chemicals, wood, transport equipment, consumer electronics and other miscellaneous manufactures. The sample captured at least one exporter of each specially demanded sub-sector or product (see section 1.3), except natural rubber. This is despite extremely low numbers of actually existing companies of some of these products.

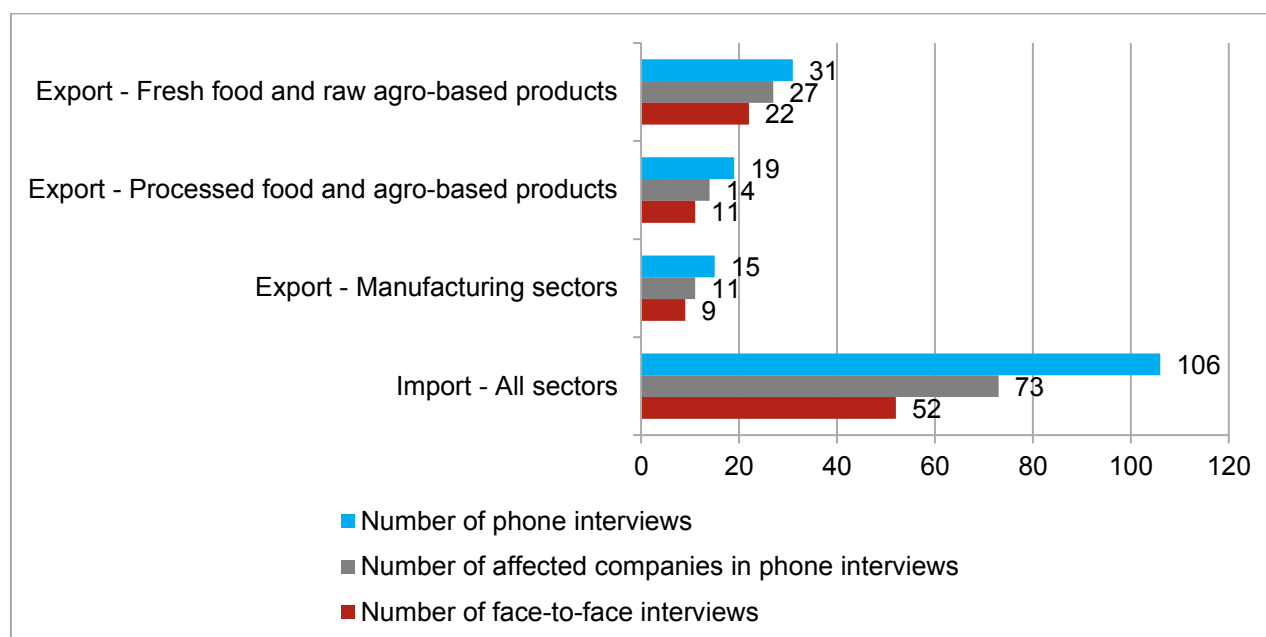
Given the challenges with the business registry and unavailability of contact data, only a total of 65 exporters could be reached and interviewed and the phone. However, successful efforts were made to then capture most of the affected companies also in face-to-face interviews (see section 1.5).

On the side of imports, 106 companies were interviewed across all sectors. Chemicals, plastics and rubber-based products represented 32% of Malawi's imports in 2010 and, thus, 30% of the phone interviews. Almost all other import sectors are also included: computers, telecommunications and consumer electronics; electronic components; basic manufactures; transport equipment; textiles; wood; fresh and processed agro-based products; and miscellaneous manufactures. The only exclusions from the sample are minor import sectors (leather and clothing) and non-electric machinery.

Company size was determined according to the number of employees specified in the phone interviews. Medium-sized and large companies represented the majority of interviewed companies, with 39% and 46% of the sample, respectively (see table 4). Micro and small enterprises were the minority with 10%. This is largely attributable to the fact that only few companies in Malawi with 10 employees or less actually export. Several of the captured 13 micro and small companies were actually trading agents that do not produce themselves. In order to draw from a reasonable number of companies in each category, further analysis in this report distinguishes between two size categories: SMEs (including micro, small and medium-sized companies) and large companies (see table 4).

Geographically, interviews were naturally concentrated on the large business centres in Blantyre/Limbe in the Southern Region, and in Lilongwe, Malawi's capital in the Central Region (see figure 8). Despite a very low density of companies outside these areas, 11 phone interviews captured firms in Mzuzu, Thyolo, Salima, Zomba, Mzimba, Mulanje and Balaka.

¹¹ See appendix I. Only sectors 6 (leather) and 12 (clothing) represent less than 2% of Malawi's imports.

Figure 7: Participation in face-to-face interviews among the companies that have indicated difficulties with NTMs during phone screens

Source: ITC survey on NTMs in Malawi, 2010-2011.

Note: Companies that both export and import are counted twice, in the respective export sector and the total of importers.

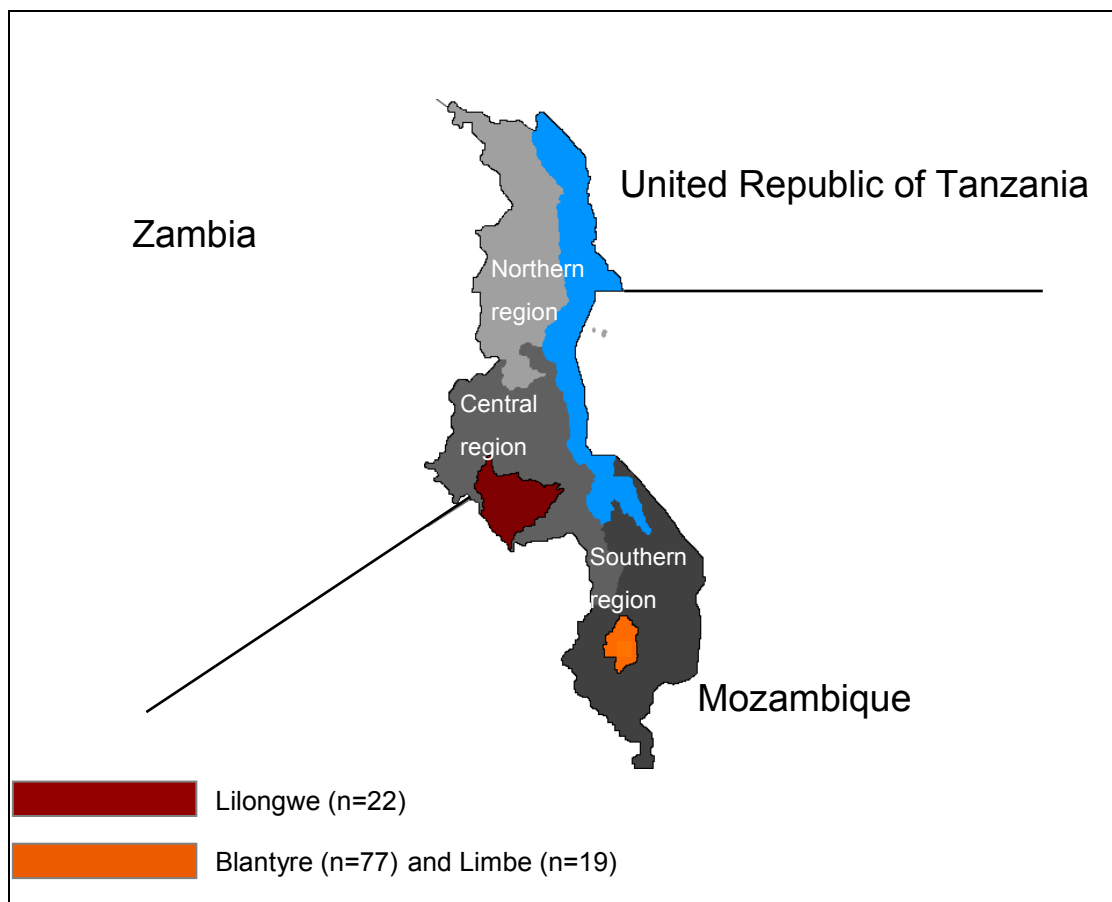
Table 4: Company size definition and participation in survey

Company size		Number of employees	Phone interviews		Number of face-to-face interviews
			Interviewed companies	Companies facing burdensome regulations	
Micro and small	SMEs	1-10	13	6	6
Medium-sized		11-100	50	31	20
Large		100+	59	47	36
Not available*		-	7	5	3
Total		-	129	89	65

Source: ITC survey on NTMs in Malawi, 2010.

* The interviewed company representatives did not give any information about the size of the company.

Note: The company size definition originates from Malawi's SME policy of 1992.

Figure 8: Geographic distribution of phone interviews

Source: ITC Survey on NTMs in Malawi, 2010-2011.

1.5. Face-to-face interviews and company characteristics

Overall, the survey includes 65 face-to-face interviews. Face-to-face interviews usually take between 30 and 60 minutes and look at the company's trade activity in detail (see section 2). Given 89 companies identified in phone interviews that are affected by trade impediments, this means a high participation rate of 73%.

Participation of exporters is particularly high, with 81% of the identified affected companies participating in the face-to-face interviews (42 out of 52 exporters). The respective rates for agricultural sectors and manufacturing sectors are similarly high (see figure 7).

The high participation rates are also a result of special efforts undertaken to obtain a sufficiently large sample of face-to-face interviews with exporters, given the rather low number of phone interviews. In May-June 2011, after difficulties to obtain enough interviews, ITC representatives conducted additional interviews. This resulted in 26 face-to-face interviews with companies in the Southern Region, thereof 22 exporters, and further insights gained from associations and public institutions, which proved valuable for the analysis of results presented in this report.

The additional interviews with exporters particularly focussed on products emphasized by Malawian stakeholders (see section 1.3). All of them, except natural rubber, could be covered in the face-to-face sample, despite low numbers of registered companies for some of the products. For example, while only three exporters of plastic packaging products were identified in the business registry, all of them were interviewed both by phone and face-to-face.

The 52 face-to-face interviews with importers particularly look at important manufacturing sectors such as chemicals, plastics, computers, telecommunication and consumer electronics, among others. Seven importers of raw and processed food and agro-based products were also captured.

The distribution of interviews in terms of company size closely resembles the distribution in phone interviews, with 40% SMEs and 55% large companies (see table 4).¹² Other company characteristics recorded in the face-to-face interviews are the operational age of the company, its ownership structure and the share of exports in annual turnover. Most of the companies were in operation for longer than five years (78%); 18% between one and five years; and only a few remaining younger than a year. While the majority of companies were fully owned (55%) or majority-owned (3%) by Malawians, a still high share of 42% was foreign-owned. Among the interviewed companies with export activities, 32% reported that only 10% or less of their turnover originates from exports. The same percentage (32%), by contrast, said that more than 80% of turnover came from their export business. The remaining 36% of exporters indicated intermediate export-shares in turnover.

Face-to-face interviews mostly took place in Lilongwe and Blantyre/Limbe, as the concentration of enterprises in these areas is high. However, four interviews in were also conducted in Thyolo, Salima and Mzuzu.

2. Captured data and evaluation approach

The interviews collect information on the characteristics of firms, including size, operational age, foreign ownership and sector affiliation. Firms are further classified as either “producing” or “forwarding” companies and as exporting or importing enterprises. Firms are also asked to provide information on their exports and imports at the product or Harmonized System (HS) 6-digit level,¹³ the destination country of exports or their imports’ country of origin. Each pair of product and partner country is referred to as ‘product-partner trade flow’.

For each product-partner trade flow, company representatives are asked to provide detailed information on the NTMs and procedural obstacles (POs) they encounter. The trained interviewers then capture the category of the NTM as classified in appendix II, the country applying the measure and the authorities causing POs. Company representatives are asked whether POs are associated with a reported NTM or if general inefficiencies in the trade-related business environment (TBEs) are the ones posing a challenge.

The final phase of data analysis consists in calculating frequency and coverage statistics along several dimensions, including product and sector, main NTM category (e.g. technical measures, quantity control measures, etc.), and company characteristics (e.g. size).

Most frequency and coverage statistics are based on ‘cases’. A case is the most disaggregated unit of analysis. Every company participating in face-to-face interviews reports at least one case of burdensome NTMs and, if relevant, procedural obstacles and challenges associated to the trade-related business environment.

A ‘case’ of NTM is defined by the type of NTM and the country applying it, the product affected by it and a company reporting the measure. For example, should there be three products affected by the very same NTM applied by the same partner country and reported by one company, results would include three cases. If two different companies report the same problem, it would then count as two cases.

However, the counting of cases differs depending on whether the NTM is applied by the exporting or importing country. The scenario where several importing partner countries apply the same type of measure to Malawi’s exports is recorded as several cases. The details of each case, including the actual name of government regulation and its strictness, may vary as regulations mandated by different countries are likely to differ.

¹² Three interviewed company representatives did not give any information about the size of the company.

¹³ In several cases products are inaccurately reported at the HS 6-digit level, but may be traced to the HS 4-digit level.

By contrast, when the exporting country applies an NTM to a product exported by one company to several countries, this will be recorded as a single NTM case – as it is considered to be a single policy. Following the same logic, companies importing a good from several different countries facing NTMs imposed by Malawian authorities will also be counted as a single case.

Cases of POs and problems with the business environment are counted in the same way as NTMs. PO and TBE statistics are provided separately from those of NTMs, even though in certain instances they are closely related. For example, extended delays may result from pre-shipment inspection requirements. While POs are directly related to a given NTM, inefficiencies in the TBE occur irrespective of NTMs.

Chapter 3 Survey results on companies' experiences with NTMs

This chapter analyses the findings of the NTM survey in Malawi. It begins with aggregate country-level results, focusing on the most affected sectors, major problems and their location. A more specific analysis of the challenges reported by exporting and importing companies in agriculture and manufacturing follows.

1. Aggregate results and cross-cutting issues

This section looks at the survey results from an aggregate perspective and discusses cross-cutting issues faced by trading companies in Malawi. The first part deals with the overall affectedness of companies by trade impediments, in a cross-country comparison and for different Malawian sectors. The following part analyses the characteristics of affected companies. The third looks at the types of challenges exporters encounter, and in which countries they face them. The fourth part summarizes the NTMs and other obstacles affecting Malawian importers. The fifth part focuses on cross-cutting procedural obstacles (POs) and inefficiencies of the trade-related business environment (TBE) in Malawi and in transit countries.

1.1. Cross-country comparison and sector-specific results

The ITC survey revealed that 69.0% of Malawian trading companies were affected by NTMs or other trade-related problems; exporting companies even to an extent of 81.5%.

Malawian exporters face trade barriers more frequently than any other country so far covered in the ITC surveys (see table 5). With Kenya in second place, sub-Saharan Africa tends to be the region with the highest shares of affected companies. Despite also being landlocked sub-Saharan countries like Malawi, exporters in Rwanda (71%) and Burkina Faso (63.2%) reported barriers less frequently. Northern African countries (Egypt, 36.7%; Morocco, 34.6%) are significantly less affected. Latin American countries find themselves in the middle of the table, with Paraguay (61.5%) more affected than Uruguay (56.0%) and Peru (41.9%). Island state exporters in Sri Lanka (69.7%), Madagascar (67.3%), Jamaica (42.0%) and Mauritius (30.5%) face barriers to varying extents. Hong Kong SAR, as a developed country surveyed in the pilot-stage of the ITC NTM project, stands out with a very low share of 23.1% of exporters facing trade impediments related to NTMs.

Table 5: Cross-country comparison of ITC survey results, share of affected exporters

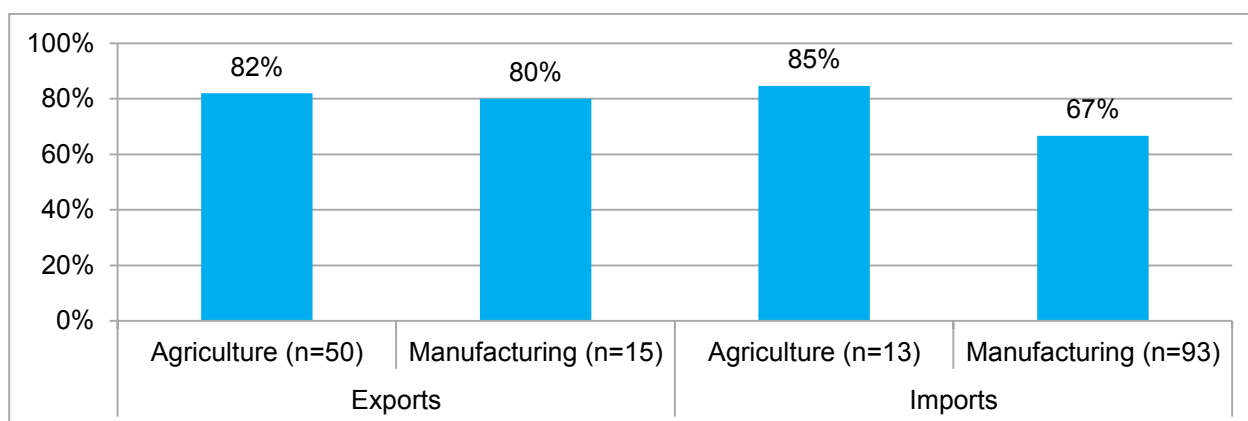
Survey country	Share of exporting companies affected by trade impediments
Malawi	81.5%
Kenya	74.8%
Rwanda	71.0%
Sri Lanka	69.7%
Madagascar	67.3%
Burkina Faso	63.2%
Paraguay	61.5%
Uruguay	56.0%
Jamaica	42.0%
Peru	41.9%
Egypt	36.7%
Morocco	34.6%
Mauritius	30.5%
Hong Kong SAR	23.1%

Source: ITC Surveys on NTMs, 2009-2012.

Looking only at exports, the shares of affected companies in agriculture (82%) and manufacturing (80%) are similar (see figure 9). In other countries, agricultural exporters reported trade barriers significantly more often than manufacturing exporters.¹⁴ A more disaggregated analysis of the data reveals that exporters of fresh food and raw agro-based products are indeed more strongly affected (87% of exporting companies). Raw agricultural products are exported from Malawi to many developed markets. Particularly these developed markets apply tight controls of food and feed to ensure the health and well-being of consumers and the protection of the environment. By contrast, processed food and agro-based products are mostly destined for regional markets and exporters therefore face less burdensome NTMs (74% of exporters affected).

When importing to Malawi, manufactures face less frequent obstacles than agricultural products (see figure 9). Given Malawi's dependence on manufacturing imports and the legitimate protection of consumer health concerning agricultural and food imports, this result is expected. Among the various manufacturing sectors, even imports of chemicals show a relatively low share of affected companies (69%), despite including products like fertilizers, insecticides, herbicides and fungicides. In a direct comparison with this sensitive sector, an equal share of affected importers (69%) of computers, telecommunication and consumer electronics appears rather high.

Figure 9: Share of affected companies, by sector and direction of trade (phone interviews)



Source: ITC Survey on NTMs in Malawi, 2010-2011.

1.2. Affected companies

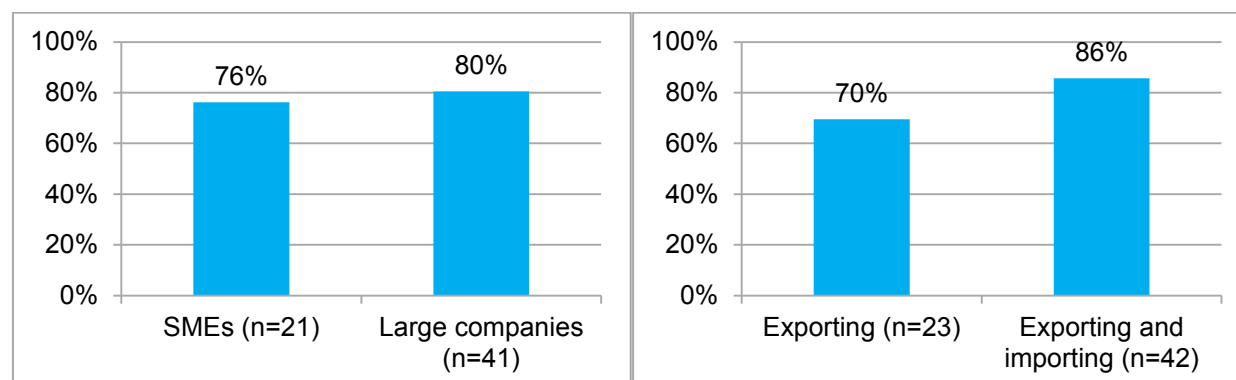
Whether a company encounters serious burdens in dealing with NTMs also depends on the company's capabilities. It is often argued that company size plays a significant role. Large companies have more experience in trade than SMEs, and dispose of greater human and financial resources. Especially fixed costs arising from NTMs and procedures affect SMEs more strongly.

Looking at exporters first, the difference of affectedness between SMEs and large companies appears rather indistinct in the survey results (see left pane of figure 10). It is important, however, to consider that large companies tend to export more products to more markets than SMEs. Large companies are therefore more likely to face impediments in at least one of these transactions. SMEs rather focus their export business on few products, fewer markets and less restricted markets, implying a lower likelihood to encounter a burdensome NTM or PO. In the overall survey statistics (figure 10), these different trade patterns seem to counterbalance the lack of experience and resources of SMEs. Nevertheless, the actual impact of a burdensome NTM on an SME is likely to be greater if the company faces it in one or more of its few markets. A more diversified large company can compensate for difficulties in some markets with other established business partners.

¹⁴ The simple average across surveyed countries so far is 60.1% for agriculture and 50.8% for manufacturing sectors.

The right pane of figure 10 proves that companies with more activities are more likely to face at least one case of burdensome NTM or PO. While 70% of the companies that only export reported barriers, 86% of those that both export and import did so. Looking back at the comparison between SMEs and large companies, a more disaggregated analysis shows that 92% of SMEs that export and import face trade impediments (large companies: 82%). This demonstrates that SMEs indeed face capacity constraints, particularly when dealing with many trade transactions.

Figure 10: Share of affected exporting companies, by size and activity (phone interviews)



Source: ITC Survey on NTMs in Malawi, 2010-2011.

Note: A company is considered as affected if it reports at least one NTM or PO on any of their trade transactions.

Companies that only import are generally less affected by NTMs and other obstacles (58% of interviewed importers). First, as seen before, the majority of Malawian imports are manufactured goods, which tend to be subject to fewer restrictions (section 1.1). Furthermore, importers usually deal with domestic authorities and regulation only (see section 1.4), with which they are likely to be more familiar than with foreign ones. As confirmed by the survey, the exporting partner company in the country of origin of the traded goods takes responsibility for NTMs in the exporting country.

For importers, a comparison across company sizes requires considering additional company characteristics. Specialized trading agents or brokers usually classify as SMEs, according to a low number of employees. However, these companies are less likely to indicate NTMs or procedures as being burdensome, as they are their core business. Large companies tend to be importers and producers for the local market. For them, importing is not necessarily a main activity and NTMs therefore entail challenges more often. Consequently, the survey finds that SME importers are less affected (50% of interviewed companies) than large importers (78%).

1.3. Major challenges with NTMs when exporting

1.3.1. Most common NTMs affecting exports

Face-to-face interviews with 65 exporting companies show that they encounter NTMs not only abroad, but also considerably at home in Malawi. The survey registered 48 NTM cases applied by importing partner countries and 58 cases of export-related cases applied by Malawi (figure 11).

The pattern in which Malawian exporters report NTMs applied by partner countries resembles that of other surveyed developing countries. Technical measures, comprising technical requirements and conformity assessment, make up the majority of cases (75%). Technical requirements establish product specifications that exported products need to comply with in order to gain market access. Conformity assessment procedures, such as certification, provide proof about compliance with the underlying technical requirements. As in most other surveyed countries, for example Kenya, Rwanda and Burkina Faso, exporters in Malawi report more cases of burdensome conformity assessment (60%) than challenges with technical requirements (15%). Even at this aggregate level of results, this indicates that certification is a bottleneck for Malawian exporters. Section 2.2.1 of chapter 3 takes a closer look at this issue.

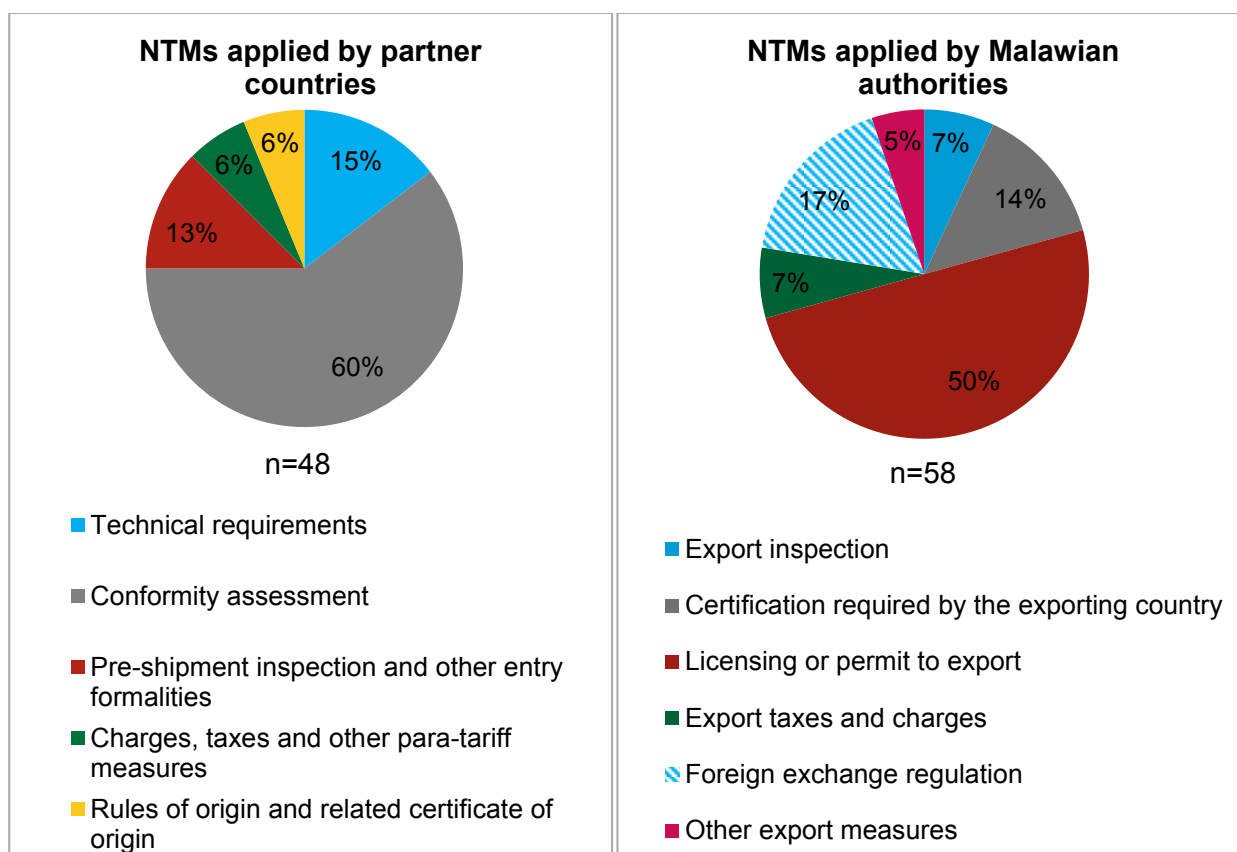
Other NTMs mentioned by exporters are pre-shipment inspections (13%), additional charges (6%) and problems related to the certificate of origin (6%).

Export-related measures applied by Malawian authorities are frequently reported (figure 11, right pane). While NTMs applied by importing partner countries only affect exports to the respective market, NTMs of the exporting country tend to impact on exports to all markets. Therefore, domestic NTMs are a more cross-cutting concern for exporters.

Among the NTMs applied by Malawi, export licenses stand out with 50% of the reported cases. Export licenses are imposed on a domestic needs basis for a wide array of agricultural products. The licensing scheme and the related procedures are discussed in section 2.3.1 of this chapter. Export inspections (7%) and technical certifications (14%) represent another significant share of the registered cases (see section 2.3.2). The conversion requirement of foreign exchange export revenue (so called '60/40 rule') made up another 17% of the cases.

During the reference period of the survey (October 2009 – June 2011), the MK was highly overvalued against the US\$, resulting in severe foreign currency shortages. The authorities maintained strict foreign exchange controls on imports and the '60/40 rule' on exports. Since the exchange rate was allowed to move freely in May 2012, regulations were relaxed and the '60/40 rule' phased-out (see sections 2.3.3 and 3.2.2).¹⁵

Figure 11: Burdensome NTMs affecting exports applied by partner countries and domestic authorities



Source: ITC Survey on NTMs in Malawi, 2010-2011.

¹⁵ According to inquiries to Malawian companies in August 2012.

1.3.2. Frequently reported partner countries

An analysis by partner countries reveals that, when exporting to a foreign market, on average every fifth interviewed company encounters burdensome NTMs applied by that country (table 6; last column, grand total). However, there are clear differences regarding which markets Malawian exporters find easier or more difficult to access.

Only 7% of the companies exporting to SADC countries face impediments in these markets. The share of affected companies is low for each of the Malawi's major SADC markets, ranging between 5% and 15% for South Africa, Zimbabwe, Mozambique and Zambia. The result indicates that market integration in the SADC region has successfully advanced beyond tariffs, towards facilitation of non-tariff market access, such as mutual recognition of certification (see section 2.2.1)

Outside SADC, Egypt and Kenya are Malawi's two largest African export markets. While both are members of COMESA, the share of affected companies was rather low in Kenya (17%), but very high in Egypt (100%). Exports to Egypt are almost entirely concentrated on tobacco (99.4% in value terms) and all three interviewed companies exporting to this product-market reported NTMs.

The EU is Malawi's largest export destination. With 28.6% of interviewed companies reporting one or more burdensome NTMs in this market, it is a relatively difficult region to access. Northern America shows similarly high shares of affected companies (33%). This confirms the general notion that developed markets apply entry requirements that exporters in developing countries find difficult to fulfil. The share of companies facing impediments ranges between 22% and 50% for the individual markets. However, at the given sample size, a meaningful comparison of affectedness across the individual countries in EU and North America is not possible.

Asia, especially China, is a growing market for Malawi's exports. The survey provides mixed results on NTMs faced by exporters in the region. For China and the Russian Federation, two of the largest markets, no burdensome NTMs were registered. In India, 25% of exporters were affected by challenging regulation. Companies exporting to smaller Asian markets reported NTMs more frequently.

Table 6: NTMs applied by partner countries

Countries (selected) and country groups	Export value		Companies surveyed in face-to-face interviews*		
	Malawian export value in 2010, (US\$ '000)	Share in total Malawian export value	Number of companies that export to this destination*	Number of companies affected by NTMs and other obstacles in this destination*	Share of affected companies among those exporting to this destination
South Africa	61,414	6.5%	21	2	9.5%
Zimbabwe	57,818	6.1%	20	1	5.0%
Mozambique	35,970	3.8%	21	1	4.8%
Zambia	35,129	3.7%	13	2	15.4%
United Republic of Tanzania	5,865	0.6%	4	0	0.0%
SADC total/average*	205,752	21.8%	86	6	7.0%
Egypt	98,268	10.4%	3	3	100.0%
Kenya	19,300	2.0%	6	1	16.7%
COMESA (other than SADC) total/average*	120,474	12.7%	14	4	28.6%
Other Africa total/average*	6,589	0.7%	4	0	0.0%
Germany	65,693	7.0%	8	3	37.5%
Netherlands	49,811	5.3%	5	2	40.0%
United Kingdom	49,055	5.2%	9	2	22.2%
EU(27) total/average*	391,633	41.4%	34	10	29.4%
Other Europe total/average*	21,273	2.2%	2	0	0.0%
United States of America	63,661	6.7%	10	3	30.0%
Canada	3,303	0.4%	2	1	50.0%
North America total/average*	66,964	7.1%	12	4	33.3%
Latin America and Caribbean total/average*	8,583	0.9%	1	0	0.0%
China	33,165	3.5%	2	0	0.0%
India	12,315	1.3%	8	2	25.0%
Russian Federation	11,230	1.2%	2	0	0.0%
Asia and Pacific total/average*	124,321	13.1%	28	12	42.9%
Grand total/average*	945,589	100.0%	181	36	19.9%

Sources: ITC Survey on NTMs in Malawi, 2010-2011; ITC Trade Map.

* Companies exporting to several destinations were counted once for every destination. Therefore, the sub-totals and grand total of interviewed companies in this table is higher than the total number of companies interviewed. The last column represents an average share of the captured countries in the sample.

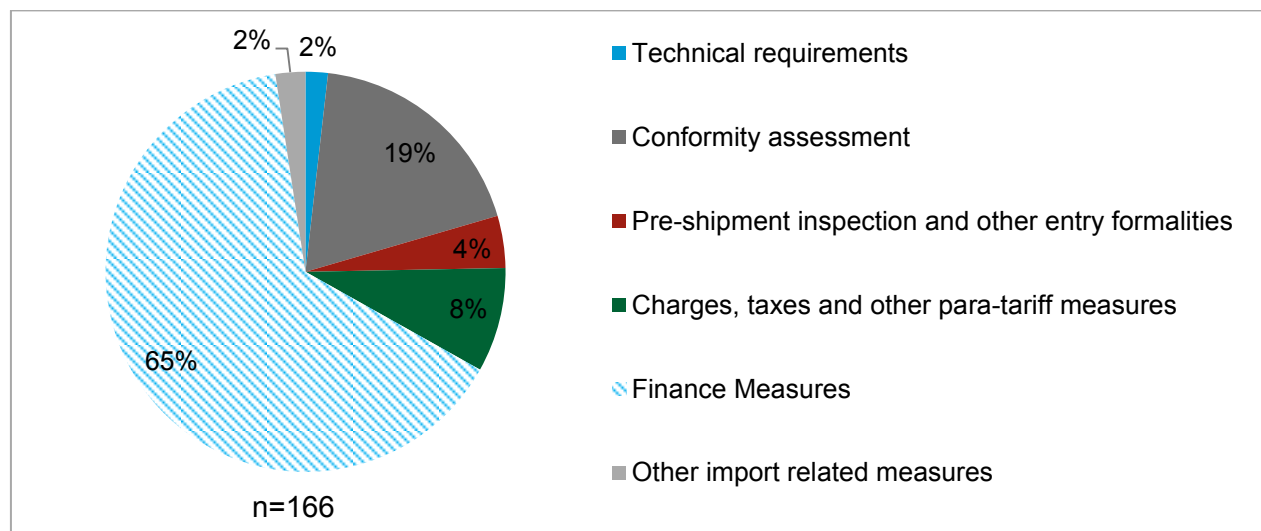
1.4. Most common NTMs affecting imports

The 52 importing companies interviewed face-to-face reported 166 cases of NTMs applied in Malawi. Under most common commercial contract terms, only domestic regulations fall into the responsibilities of the importer. Thus, it is an expected result that only a single case was attributed to partner countries' regulations. During the reference period of the survey (2009-2011), Malawian companies faced two major domestic sets of problems when importing (figure 12).

The first related to foreign exchange regulations that were put in place during the overvaluation and peg of the MK to the US\$ (see section 3.2.1). Foreign currency outflows for import operations worth more than US\$ 50,000 had to be authorized through the Reserve Bank of Malawi (RBM, 65% of the NTM cases). After the survey, Malawi liberalized the foreign exchange rate in May 2012 and abolished the special import authorizations. A large share of challenges faced by Malawian importers has therefore been resolved.^{16,17}

The second issue are import inspections under the Import Quality Monitoring Scheme (IQMS, 19% of NTM cases). Reports of additional changes (8% of cases) mostly related to the IQMS fees and a quality development cess. For further discussion of import inspections and fees see section 3.2.2.

Figure 12: Non-tariff measures applied by Malawi affecting imports



Source: ITC Survey on NTMs in Malawi, 2010-2011.

1.5. Procedural obstacles and inefficiencies of the TBE

While NTMs are mandatory regulations introduced by competent authorities of an exporting or importing country, POs are problems related to the manner in which a regulation is applied or implemented. An inefficient TBE can cause similar problems also without being directly related to specific NTMs. In general, POs and TBE-related problems can take place in the home country and in partner countries.

In Malawi, most of these obstacles are domestic (242 out of 281 cases). This applies to exports (70% domestic obstacles) and even more to imports (95%). Section 1.5.1 discusses these domestic obstacles and institutions, while section 1.5.2 briefly looks at issues in transit countries. Procedural obstacles in destination countries tend to be very specific and are therefore presented along with the respective NTMs in sections 2 and 3.

1.5.1. Domestic challenges

Figure 13 shows that the types of challenges faced domestically are similar for exporters and importers. For both directions of trade, delays stand out with 62% of registered obstacles.

¹⁶ Economist Intelligence Unit (June 2012); and Reserve Bank of Malawi, Press Release of 7 May 2012. Available at: http://www.rbm.mw/documents/press_releases/Press%20Release%20on%20Malawi%20Kwacha%20Devaluation.pdf, accessed on 20 December 2012.

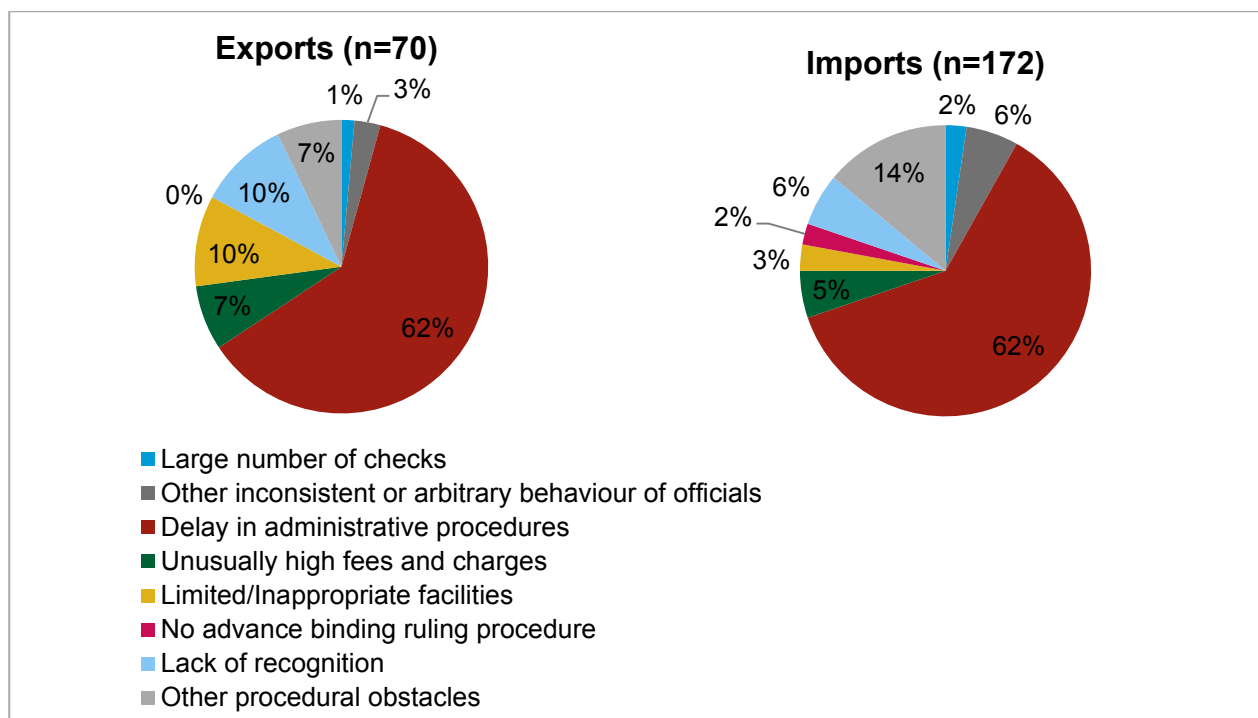
¹⁷ According to additional inquiries to Malawian importers in August 2012.

A lack of recognition of domestic certificates by foreign authorities was reported in 10% of the cases concerning exports. Similarly, on the import side, 6% of the cases referred to foreign certificates not being recognized in Malawi. High fees and charges account for 7% and 5% of cases regarding exports and imports, respectively. Reports of inappropriate facilities were more common (10%) when exporting than when importing (3%). Exporters and importers also perceived an inconsistent behaviour of officials, with 6% and 3% of the respective cases.

More specifically, administrative delays in export procedures were often encountered at the institutions that emit export licenses in the agricultural sector: MoIT and the Ministry of Agriculture and Food Security (MoAFS). Every second mention of export-related burdensome procedures refers to these ministries (see table 7 and section 2.3.1). Exporters pointed at bottlenecks in testing and certification facilities of the MBS and mentioned that authorities in developed markets did not recognize their technical certificates (see table 7 and section 2.2.1). Exporting companies also face obstacles at MRA, at the testing and research facilities of the Department of Agricultural Research and Technical Services (DARTS) and at RBM, among others.

The main challenges for importers during the reference period of the survey were unpredictable delays in obtaining special authorizations for foreign exchange transactions from the RBM. However, since the authorization requirement was removed in May 2012, these delays at RBM no longer occur (see section 3.2.2).¹⁸ In relation to the MBS, importers mentioned delays and costs in relation to inspections under the IQMS (section 3.2.2). Importing companies reported a lack of recognition of international certification, as their already certified goods were also inspected and charged. At Customs, which is part of the MRA, some importers lamented an inconsistent classification of goods that led to higher duties paid.

Figure 13: Domestic procedural obstacles and inefficient TBE affecting exports and imports



Source: ITC Survey on NTMs in Malawi, 2010-2011.

¹⁸ According to additional inquiries to Malawian importers in August 2012.

Table 7: Domestic institutions involved in procedural obstacles

POs/TBE affecting exports			POs/TBE affecting imports		
Location of obstacles	Number of times the institution is mentioned in relation to POs/TBE*	Share in total	Location of obstacles	Number of times the institution is mentioned in relation to POs/TBE*	Share in total
Ministry of Industry and Trade (MoIT)	23	29.5%	Reserve Bank of Malawi (RBM)	102	59.0%
Ministry of Agriculture and Food Security (MoAFS)	16	20.5%	Malawi Bureau of Standards (MBS)	32	18.5%
Malawi Bureau of Standards (MBS)	12	15.4%	Malawi Revenue Authority (MRA)	24	13.9%
Malawi Revenue Authority (MRA)	8	10.3%	Department of Agricultural Research and Technical Services (DARTS)	3	1.7%
Department of Agricultural Research and Technical Services (DARTS)	7	9.0%	Commercial banks	3	1.7%
Reserve Bank of Malawi (RBM)	5	6.4%	Ministry of Health	1	0.6%
Ministry of Foreign Affairs	4	5.1%	Ministry of Industry and Trade (MoIT)	1	0.6%
Malawi Confederation of Chambers of Commerce and Industry (MCCCI)	2	2.6%			
Not specified	1	1.3%	Not specified	7	4.0%
Total	78	100.0%	Total	173	100.0%

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* This table refers to the number of times an institution was mentioned in relation to POs/TBE. Since an interviewed company can refer to more than one institution for each 'case' of PO/TBE, the numbers differ from the total of reported 'cases'.

1.5.2. Transit countries

As a landlocked country, transit conditions are crucial for Malawi's exports and imports. The costs of being landlocked are estimated at an average of US\$ 120/ton or 12.5% of import value.¹⁹ They constitute a significant part of total transport costs that sum up to 30% for exports and 56% for imports.²⁰ These costs are high, but still slightly below the average of sub-Saharan Africa.²¹ There are three major transit corridors: Beira and Nacala in Mozambique, and Durban in South Africa. In face-to-face interviews, 23 companies reported procedural and infrastructural challenges during transit: 16 encountered problems in Mozambique, four in South Africa, and three in both countries.

Along the Mozambique routes, three quarters of the companies trading via Mozambique experienced substantial delays. At both ports, these varied between 2 weeks and 3 months. Especially the unpredictability of these delays was a challenge for business planning and customer relations. Exporters lamented congestion due to a lack of port infrastructure and ships.

Other obstacles were so-called "escorts" of goods by officials from Mozambique. During the reference period of the survey, 21% of the interviewed companies had to pay charges to have their goods escorted

¹⁹ World Bank (2010). Summary of Main Finding and Recommendations.

²⁰ WTO. Trade Policy Review: Malawi. Report by the Secretariat (2010), p. 52.

²¹ World Bank. Doing Business (2011b).

from the border post to Beira or Nacala. Authorities from Mozambique state that escorts are required for goods with a high level of fiscal risk and that charges depend on the time required to reach the ports.²² However, exporters were in doubt whether they were actually obliged to pay the charges for their respective goods, and felt that officials set the amount of fees arbitrarily. Furthermore, two companies pointed at a low level of security of goods particularly at Nacala. Their cargo was damaged on several occasions, or even stolen.

Despite being more than twice as far away as either port in Mozambique, Durban is an alternative transit corridor for some exporters. The freight costs of the route are prohibitive for some exporters. However, delays at the port are much shorter and reliability higher. Exporters tend to choose Durban together with importing customers if these require timely delivery and are willing to pay the extra costs.

2. Agricultural products

This chapter discusses obstacles to trade in the agricultural sector. The results are based on 54 phone interviews and 36 subsequent in-depth face-to-face interviews with exporters and importers of agricultural commodities. Additional interviews with experts from government authorities and private sector associations widen the scope of the analysis.

Malawi's agro-based sector is comprised of some very different products, ranging from cash-crops like tobacco to essential foods like maize. However, the survey results show that exporting companies face similar impediments across products. After a brief introduction to the agricultural sector in the first section, the second and third sections of this chapter present the main cross-cutting burdensome NTMs and POs to agricultural exports. Exporters report both NTMs applied by the destination country (section 2.2) and NTMs applied by Malawian authorities (section 2.3). The respective related POs, may occur anywhere irrespective of the country applying the NTM.

Malawi is an agricultural net exporter. Depending on harvests, however, in some years it relies on imported essential foods, mostly cereals, to guarantee food security. The fourth section of this chapter looks at NTMs and other obstacles to imports of food commodities.

Despite the aforementioned similarities of problems faced by agricultural companies, there are differences across products that require specific attention. The same measure may affect companies trading distinct products at different levels of intensity, possibly also due to different structures of the respective sub-sectors. Or, while the general nature of NTMs can be similar across products, they may vary substantially in detail. In a few cases, certain types of NTMs apply only to specific products. Dealing with such differences and providing a more specific analysis, the fifth section treats some important sub-sectors in further detail: tobacco, tea, cotton, pulses and other vegetables.

The last section summarizes and provides policy options.

2.1. The outstanding role of the agricultural sector

Malawi is an agro-based economy with about 85% of the population being farm smallholders and their dependants.²³ Agricultural production accounts for about a third of GDP, of which small-scale farmers contribute 75%.²⁴ In total exports, the share of agriculture was fairly constant at almost 90% between 2001 and 2010 (both green areas in figure 14).²⁵ Growth of the agricultural sector was slow between 2001 and 2005, but increased greatly in the following years with growth rates exceeding 30% in 2006, 2007 and 2009 (figure 14). Apart from favourable weather conditions, this development has been attributed to the Farm Input Subsidy Program that provided heavily discounted fertilizers to about 1.2 million 'vulnerable

²² COMESA, East African Community and SADC. Non-Tariff Barriers; Reporting, Monitoring and Eliminating Mechanism. Online information available at: <http://www.tradebarriers.org/complaint/NTB-000-401>, accessed on 20 December 2012.

²³ Economist Intelligence Unit (2008), p. 17.

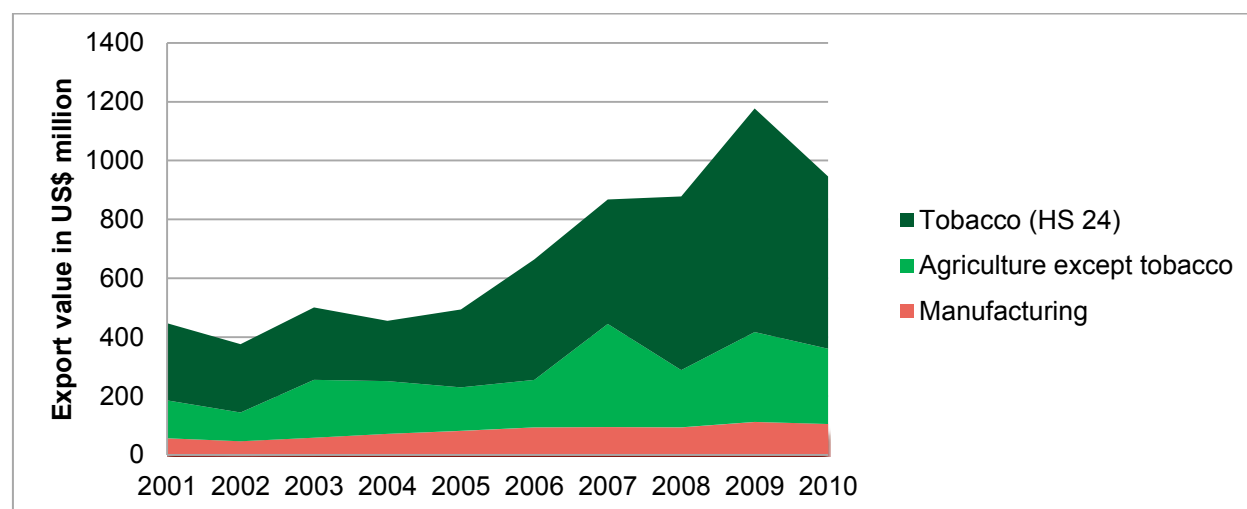
²⁴ WTO. Trade Policy Review: Malawi. Report by Malawi (2010), p. 8; MEPC and International Finance Corporation (2009), p. 9.

²⁵ Total exports in this report always exclude minerals and arms. Unless otherwise specified, trade figures refer to value terms.

farmers'.²⁶ The Program is part of the Agriculture Sector Wide Approach (ASWAp), which was defined under the Malawi Growth and Development Strategy (MGDS) in order to promote growth in the agricultural sector as a central pillar for Malawi's economy.²⁷ However, exports declined substantially in 2010, particularly in the tobacco sector.

As Malawi's agricultural exports are concentrated on a few crucial crops, the aforementioned growth figures of the sector are often determined by strong fluctuations in individual product exports. Tobacco is by far the largest, accounting for 70% of agricultural exports in recent years. The product is therefore the main determinant of Malawi's overall export performance (see figure 14). Tobacco was a significant driver behind export growth in the second half of the last decade, but also accounted for most of the decline in 2010. About 15% of farmers in Malawi grow tobacco, which is not kept for personal consumption but fully marketed.²⁸

Figure 14: Development of exports of manufactures, agricultural goods and tobacco, 2001 – 2010



Source: ITC calculations based on Trade Map data, 2011

In addition to tobacco, tea, coffee and sugar are considered traditional export products. These jointly represented 18% of total agricultural exports in 2010.²⁹ While tea and coffee exports have achieved a substantial average annual growth of 8% over the last decade, sugar exports have not exhibited a clear trend. Tea production employs workers on nine large estates, and more than 10,000 smallholder farmers. Sugar is grown by 5% of Malawian farmers.^{30,31}

Maize is grown by about 97% of all farmers in Malawi; other cereals, mostly wheat, by 24%. Since cereals represent the most important essential food source for smallholder farmers and their dependents, production is mostly for personal consumption and not marketed. Consequently, exports vary strongly according to seasonal yields. Only in years with extremely good harvests, cereals are exported (e.g. 2007, see figure 15), but usually imported in most other years.

²⁶ WTO Trade Policy Review: Malawi, Report by Malawi (2010), p. 8; MEPC and International Finance Corporation (2009), p. 9.

²⁷ WTO Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 38.

²⁸ MEPC and International Finance Corporation (2009), p. 11.

²⁹ Unless otherwise specified, all trade statistics mentioned in the body text are ITC calculations based on Trade Map data. If no year of reference is specified, the figures refer to 2010 trade.

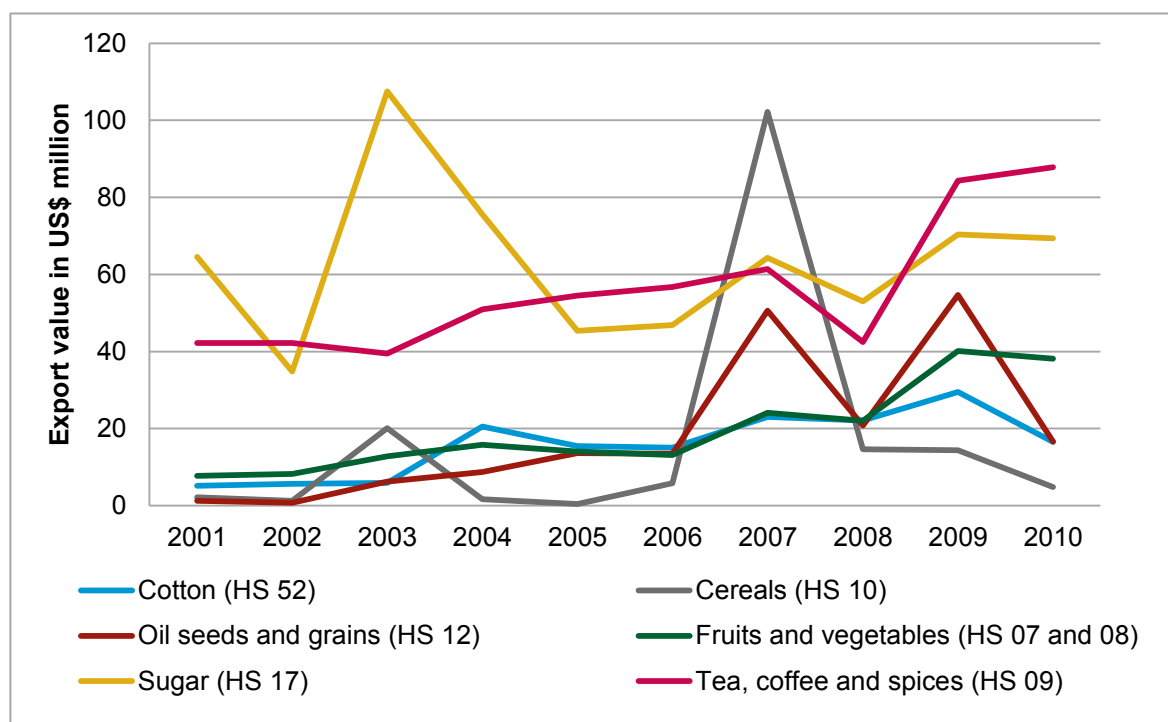
³⁰ MEPC and International Finance Corporation (2009), p. 11.

³¹ Despite its large export value, sugar is not discussed in detail, as the market is controlled by a monopolist. Please refer to section 2.3.1 for the predominant problem of this sector.

Diversification into non-traditional food crops, other than maize, is also an aim of the ASWAp. Specifically identified products include beans, peas (pulses are comprised in vegetables, HS 07, in figure 15), soya and groundnuts (both defined as oil seed and grains, HS 12, in figure 15), and horticultural crops.³² Pulses and nuts, representing almost all exports of fruits and vegetables, have seen a quite steady and strong export growth averaging over 17% per annum since 2001. Pulses also have a high significance in the smallholder sector, being grown by 68% of farmers in Malawi.³³ They are an important food source for domestic consumption, but also represent almost 5% of total agricultural exports. Seed exports have also experienced very high growth over the last decade, but have fluctuated greatly over the last few years. Exports of chillies, as a high-value horticultural product, have also grown substantially, but with an unsteady trend since 2001.

Cotton exports have grown fairly steadily with an average annual rate of 12% since 2001 (figure 15). While the product is only grown by about 3% of Malawian farmers,³⁴ the entailed ginning industry adds value to the exported product. Exports of cotton lint (cotton after the process of ginning) then account for about 1.8% of Malawi's total agricultural export value.

Figure 15: Development of exports of major agricultural product groups (except tobacco), 2001 – 2010



Source: ITC calculations based on Trade Map data.

Figure 16 illustrates Malawi's main export destinations for agricultural commodities. Since tobacco dominates Malawi's export sector as by far the largest export product, it is worthwhile distinguishing between destination markets for tobacco (left pane) and the remaining agricultural products (right pane).

More than half of Malawi's tobacco exports are imported by large buyers and processors in Europe (52% of total tobacco exports). Belgium stands out as a major shipping hub for re-exports within Europe. The two-fold market concentration, both in terms of the product (tobacco) and in terms of destination markets (Europe), is a reason for concern – particularly given recent anti-smoking initiatives and legislations in Europe. Egypt is the only major African market (17% of exports).

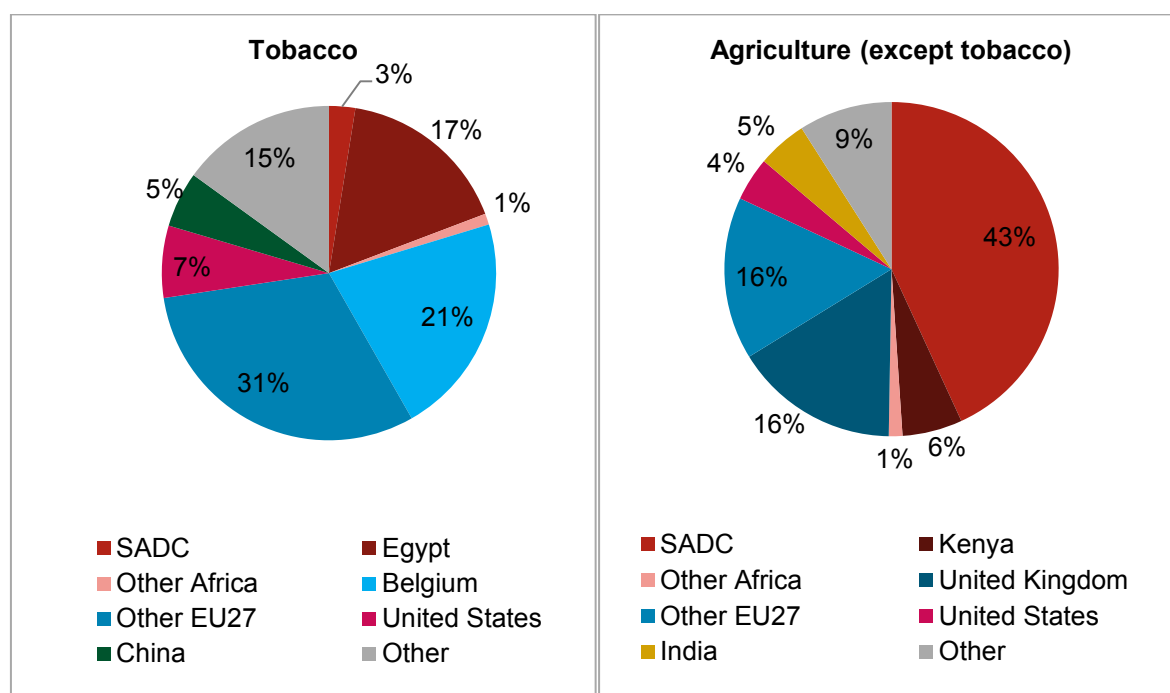
³² WTO. Trade Policy Review: Malawi, Report by Malawi (2010), p. 9.

³³ MEPC and International Finance Corporation (2009), p. 11.

³⁴ *Ibid.*

Export destinations of other agricultural products are quite different. Essential food commodities are mostly exported to regional markets, particularly within the SADC preferential trade area and to Kenya. African markets account for 50% of Malawi's non-tobacco exports. The United Kingdom imports 16% of Malawi's agricultural exports (excluding tobacco). Long-standing post-colonial ties in some traditional export sectors, particularly tea and sugar, are strong drivers behind the bilateral trade between the two countries. Other developed countries in the European Union (EU) and the United States account for an additional 20% of agricultural exports (excluding tobacco).

Figure 16: Export destinations of agricultural exports, 2010



Source: ITC calculations based on Trade Map data.

2.2. Exporters' experiences with regulations in partner countries

While the production and market structures are different across agricultural products, exporters face quite similar challenges. In initial interviews on the phone with 50 exporters in the agricultural sector, 82% reported impediments to trade. Subsequently, 32 companies exporting agricultural commodities were interviewed face-to-face. Out of these companies, 34% struggle with regulations applied by the importing partner country. This section discusses the challenges for exporters emanating from these NTMs applied by partner countries. The products affected by these NTMs represent 89% of Malawi's total exports (table 8). The following section 2.2.1 treats the predominant sector-wide problem of technical measures and related domestic issues. Section 2.3 then turns to the NTMs applied by Malawian authorities. Section 2.4 looks at challenges faced by importers of agricultural goods. Section 2.5 analyses four important sub-sectors and looks at product-specific challenges encountered both abroad and domestically. At the end of section 2.2., tables summarize the reported NTMs applied by destination countries (table 8) and the relation between these NTMs and POs (table 9).

2.2.1. Technical requirements, certification and domestic facilities

Exporters in the agricultural sector have reported 45 cases of NTMs applied by partner countries. Each case is specific to a product (HS 6-digit) and to the destination country applying the measure. Technical measures represent 75% of these cases (table 8). Technical requirements are manifold and define product-related requirements, for example quality standards, chemical residual limits, post-production treatments, marking and labelling requirements. Most of these technical requirements also require conformity assessment procedures, like certification and inspection, to prove compliance. The exact technical measures are product-specific, per definition, and therefore vary from product to product. A more

detailed discussion about concrete measures is therefore reserved for the product-group analyses in section 2.5 of this chapter. However, general patterns and the difficulties with measures and procedures are strikingly similar.

In general, SMEs in particular are negatively affected by technical measures: 50% of the interviewed SME exporters of agricultural goods reported such challenges for at least one product and destination country. Large companies appear slightly less affected by technical measures (25% of interviewed large companies reported burdensome technical measures). A common explanation is that they dispose of more financial resources and technical know-how than SMEs. Fixed costs to comply with technical standards, such as the cost of certification, also impose a relatively heavy burden on smaller companies.

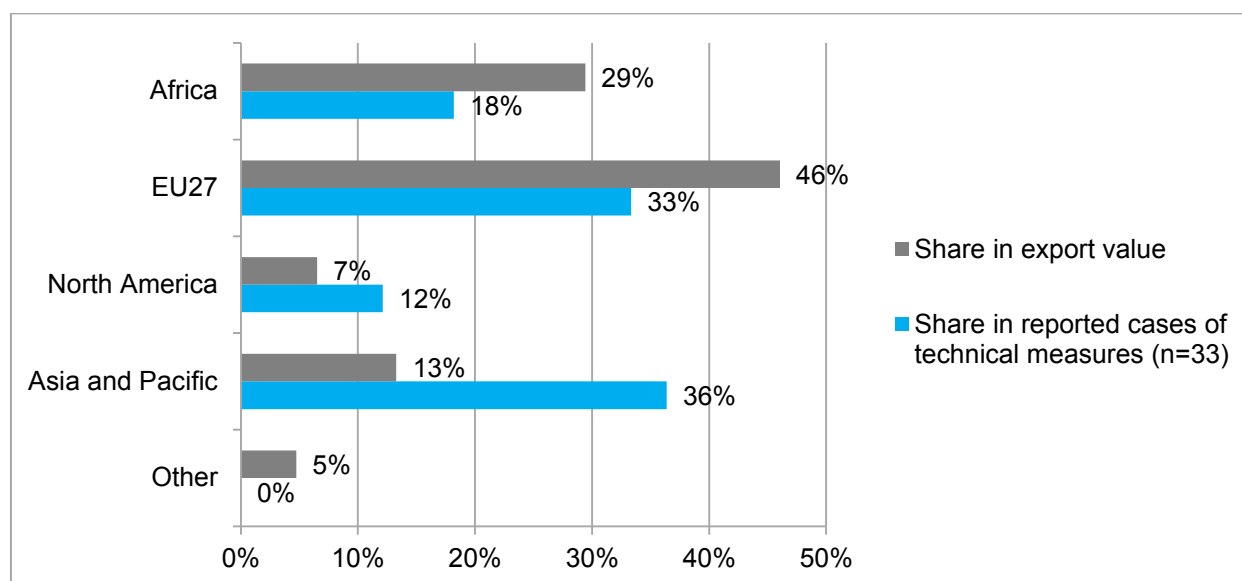
Technical measures can be broadly distinguished into technical requirements and conformity assessment. The former regulates the exact product-specific properties that the product needs to comply with, e.g. minimum chemical residual levels or fumigation requirements. Conformity assessment provides proof of the compliance with the underlying technical requirement, e.g. by means of certificates or inspections. Usually, an exporting company needs to deal with both components of the technical measures. The NTM business survey enables the identification of the most burdensome aspects of such composite measures. In Malawi's agricultural export sector, 82% of reported cases of technical measures refer to conformity assessment. In most other surveyed developing countries, findings were similar. This result hints at the fact that companies face less difficulty in complying with the technical requirements or standards, but have trouble obtaining certification. This statistical indication was confirmed in several in-depth face-to-face interviews with exporting companies and by MEPC.³⁵ The challenge for exporters is two dimensional: On the one hand, there is an issue with partner countries, as standards and certification requirements are mandated by them. On the other hand, there is a domestic issue, as certificates demonstrating compliance have to be obtained by the exporter.

Across partner countries, quite distinct regional differences are evident. African export destinations appear relatively less restrictive in their technical import regulations: Only 18% of cases of burdensome technical measures were reported to be applied by African countries, while the share of Malawian agricultural exports destined for Africa amounts to 29% (figure 6). When explicitly asked, six out of seven (86%) agricultural exporters reported that technical measures in regional African markets do not pose a problem for them. MBS confirmed that SADC and COMESA members mostly recognize domestic test results and certificates. These results of the NTM survey are very encouraging evidence that regional integration works well even beyond regular tariff reductions.

Most reported burdensome standards and certification requirements are imposed by developed countries in the EU and North America (45% of the cases, figure 17). However, the share of technical impediments encountered in the EU and North America is slightly below the respective share of export value (53%, figure 17). Given a reputation of particularly challenging technical standards and certification requirements in these countries, the opposite result would be expected. A detailed look at the survey data reveals that, despite the difficulties of exporting to Europe or North America, technical requirements are harmonized to a certain extent. Commonly, certificates for phytosanitary reasons, quality and chemical residuals need to be provided. While these requirements may be strict per se, obtaining sufficient certification for market access to the EU gives Malawian exporters access to many markets, not only to an individual country. According to the survey, the technical import requirements applied by Australia, Canada and the United States are similar to those applied by the EU – however, certificates often differ and imply costs for each market.

³⁵ Five out of seven companies, which were explicitly asked to specify their main challenge, emphasized conformity assessment.

Figure 17: Shares of agro-based exports and burdensome technical measures applied by main partner regions



Sources: ITC Survey on NTMs in Malawi, 2010-2011; ITC Trade Map.

The share of burdensome technical measures of developed and emerging economies in Asia and Pacific is remarkably high (36%, figure 17). This share compares to only 13% of respective Malawian exports. Countries in Asia and the Middle East also apply international standards and requirements that resemble those reported for the EU and North America. However, a few companies complained of excessive technical requirements and certification issues beyond international standards, especially when exporting tea to Japan, Sri Lanka or the United Arab Emirates. These particular cases represent a third of the technical NTMs reported in the region. The tea sector and its special characteristics will be discussed in more detail in section 2.5.2 of this chapter.

A crucial domestic dimension aggravates the challenges with conformity assessment. MBS, the national standardization body and focal point for testing, inspection and certification, is not internationally accredited and lacks resources to cope with the high demand for their services. More than half of the companies encountering difficulties with technical measures and certification referred to limited facilities at MBS and a lack of recognition of their national certificates (see tables 9 and 12). As mentioned above, accreditation difficulties do arise much less with SADC or COMESA partner countries where national certificates are often recognized. However, MBS certificates and test results were not accepted by extra-regional markets in the EU, North America, Asia and Pacific.³⁶

These circumstances mean that exporters often need to obtain certification from accredited private-sector facilities. Out of those companies that could not obtain certification recognized by their partner countries from MBS, 80% needed to revert to the services of Société générale de surveillance (SGS), a major international private-sector certification company with facilities in Malawi.³⁷ While exporters are not obliged by the importing partner country to use the services of SGS in particular, SGS provides the most accessible certification facility that is internationally accredited. Anecdotal evidence from the survey suggests that certification is perceived as expensive at SGS, especially for SMEs and in comparison to MBS.

'Quality certification is required by partners. Since MBS is not accredited, our company has to obtain certification from SGS.'

A producer of peas and chillies exporting to Europe, North America and East Asia (ITC survey on NTMs in Malawi).

³⁶ No NTMs were reported for South American partner countries. However, among the interviewed companies in the agricultural sector, only one company exports to South America. The survey sampling is random with respect to the export destination, and matches the very low actual export value to South America in this case.

³⁷ SGS website: <http://www.sgs.com/>

An additional stakeholder interview at MBS documents that it is fully aware of this situation. The institution has already prioritized improving conformity assessment facilities, e.g. laboratories for microbiological and chemical residuals testing. Yet, even the most sophisticated testing equipment will not fully solve the companies' problems, unless MBS can achieve international accreditation. For this reason, MBS is engaged in a project with the EU to accredit the Bureau. In 2012, a support agreement was signed with the EU that outlines a four-year roadmap to obtain accreditation according to various ISO standards, especially ISO/IEC 17025, by 2016. Accreditation under ISO/IEC 17025, for general competence of testing and calibration laboratories, requires all facilities to be at the technical level of developed countries' facilities, e.g. of those in the EU.

MBS is also on the way to becoming a full member of the International Organization for Standardization (ISO), in which it has only been a subscriber until now. As a subscriber, MBS has access to information about international standards, but no influence on the process of defining standards. MBS points out that developed economies mostly play the role of international standard-setters, implying Malawi's difficult role of a standard-taker. MBS struggles with constant pressure to keep up with implementing international standards into national legislation and their testing portfolio. Becoming a full member of the ISO gives MBS the potential to participate and vote in technical committees where standards are defined. However, the institution fears that its influence will be small in contrast to developed countries and that costs for negotiation delegations will be beyond its financial capabilities.

Table 8: Export of agricultural products: burdensome NTMs applied by partner countries

Reported export products			Export to the world		Number of reported NTM cases						
Product group	HS product code (as reported)	Product code description (abridged)	Product's export value in 2010, US\$ '000	Share of product in the sector's export value*	Technical requirements	Conformity assessment	Pre-shipment inspection and formalities	Charges, taxes and other para-tariff measures	Rules of origin	Sub-total	Country reported to apply burdensome NTMs (number of cases, if more than one)
Pulses and other vegetables	070960	Fresh or chilled fruits of the genus Capsicum or Pimenta	18	0.00%		1				1	Spain
	071310	Dried, shelled peas Pisum sativum", whether or not skinned or split"	13,252	1.58%		2				2	Canada, United Kingdom
	071320	Dried, shelled chickpeas garbanzos", whether or not skinned or split"	2,391	0.28%		1				1	Canada
	071390	Dried, shelled leguminous vegetables, whether or not skinned or split (excl. peas, chickpeas, beans, lentils, broad beans and horse beans)	7,414	0.88%		10				10	India (2), Singapore (2), Canada, Malaysia, Thailand, United Arab Emirates, United Kingdom, United States
Tea and spices	090220	Green tea in immediate packings of > 3 kg	3	0.00%	1					1	United Arab Emirates
	090240	Black fermented tea and partly fermented tea, whether or not flavoured, in immediate packings of > 3 kg	80,609	9.59%	2	2				4	Sri Lanka (2), Australia, Japan
	090420	Fruits of the genus Capsicum or of the genus Pimenta, dried or crushed or ground	23	0.00%		8				8	Germany (2), Netherlands (2), United Kingdom (2) Italy, Spain
Sugar	170111	Raw cane sugar (excl. added flavouring or colouring)	68,966	8.20%				1		1	Mozambique (transit country)
Tobacco	240110	Tobacco, unstemmed or unstripped	241,613	28.73%	2	1	4	2	2	11	Egypt (4), South Africa (3), United States (2), Bulgaria, Germany
	240120	Tobacco, partly or wholly stemmed or stripped, otherwise unmanufactured	331,089	39.37%		1			1	2	Egypt (2)
Other raw and processed food	040900	Natural honey	7	0.00%		1				1	Japan
	100510	Maize seed	381	0.05%	1	1				2	Zambia (2)
	190531	Sweet biscuits	818	0.10%			1			1	Kenya
	Total		746,584	88.78%	6	28	5	3	3	45	

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* Value of total export of agricultural products in 2010 is US\$ 840,925,000.

Table 9: Export of agricultural products: NTMs applied by partner countries and reasons making them burdensome

NTM chapter	Number of NTM cases	Type of associated procedural obstacles	Number of associated procedural obstacle cases				Burdensome NTM requirements without associated POs
			in partner country	in home country	in transit country	Sub-total of POs	
Technical requirements	6	D3. Deadlines set for completion of requirements are too short			2	2	
		B1. Information is not adequately published and disseminated	1			1	
		D1. Delay in administrative procedures	1			1	
		<i>No PO, only NTM requirement itself imposes a burden</i>					2
Conformity assessment	28	H5. Lack of recognition e.g. of national certificates		6		6	
		F1. Limited/Inappropriate facilities		5		5	
		A4. Large number of checks	1			1	
		D1. Delay in administrative procedures	1			1	
		D2. Deadlines set for completion of requirements are too short			1	1	
		<i>No PO, only NTM requirement itself imposes a burden</i>					1
Pre-shipment inspection and other formalities	5	E1. Unusually high fees and charges	4	2		6	
		D1. Delay in administrative procedures	2			2	
		F1. Limited/Inappropriate facilities		1		1	
Charges, taxes and other para-tariff measures	2	E1. Unusually high fees and charges	2	2		4	
		D1. Delay in administrative procedures	2			2	
Rules of origin	3	D1. Delay in administrative procedures	1	2		3	
Total	44		15	18	3	36	3

Source: ITC Survey on NTMs in Malawi, 2010-2011.

2.3. Exporters' experiences with regulations in Malawi

This section discusses regulations applied by Malawian authorities to exports of agricultural commodities. Exporters report these domestic measures even more frequently than burdensome regulations in destination countries. Exporters naturally know local circumstances and regulations better than those in far-away importing partner countries. Therefore, the more frequent reports about domestic regulations are partly caused by the survey-design of interviewing exporters in the country of origin. While all export-related requirements imposed by Malawi are under the responsibility of the exporting company, part of the requirements applied by the importing partner country are taken care of by importing companies in the foreign market. This also drives up the share of domestic measures in the total number of measures.

In fact, 66% of the 32 interviewed exporters in the sector reported to be adversely affected by export-related NTMs applied by Malawian authorities. This compares to a respective 34% of exporters troubled by NTMs in destination markets (see section 2.2). From the perspective of Malawian exporters, the previously discussed import-related NTMs, and particularly technical measures, only affect trade with the specific applying partner countries. In contrast, export-related NTMs applied by Malawi itself impact on trade with any importing destination country. They can therefore compromise the entire exports of a product.

Exported products that reportedly face restrictive policies applied by Malawian authorities cumulatively account for 84% of Malawi's agricultural exports (table 10).

The following section discusses three recurring issues mentioned by exporters throughout the agricultural sector: the export licensing policy and related procedures (section 2.3.1); export inspection requirements with entailed costs and bottlenecks (section 2.3.2); and foreign exchange controls. Further details concerning NTMs and other obstacles affecting specific sub-sectors will be provided in section 2.5.

2.3.1. Export licensing and related procedures

Almost a third (31%) of all interviewed companies exporting agro-based products reported to face challenges with export licenses. According to the latest information from MRA and MoIT, export licenses are required for most agricultural products produced in Malawi. In summary these are: tobacco, tea, maize and maize products, rice, pulses and their products, groundnuts, other oil seeds, and planting seeds in quantities larger than 90 kilograms.³⁸ This list, however, may change over time as export licenses are instituted on a needs basis.³⁹ This also explains small differences between the currently available list and the survey results (reference period of survey: October 2009 – June 2011).⁴⁰ While the NTMs reported in the ITC survey match the list quite well, several companies also claimed to face obstacles in obtaining licenses for cotton, chillies and raw sugar (table 10).⁴¹

MoIT and MoAFS issue export licenses for agricultural goods (table 12), with the exception of tobacco, which is administered through the Tobacco Control Commission (TCC). According to the MoIT, the aim of the export licensing scheme is to guarantee food security as well as the health and safety of people, animals and plants.⁴² The licences are applied irrespective of the destination country of the exports.

Among those companies exporting any of the products for which an export license is required,⁴³ 40% reported this as a burdensome measure. It stands out that none of the interviewed tobacco exporters experienced licensing procedures at TCC as a burden (see section 2.5.1 for a discussion of the tobacco sector).

³⁸ MRA, Prohibited Exports and Restricted Exports, online information available at http://www.mra.mw/prohibited_exports.php, accessed on 20 December 2012.

³⁹ Direct statement of the Ministry of Trade and Industry to ITC.

⁴⁰ The survey started in October 2010 and companies were asked which obstacles they faced in the last twelve months.

⁴¹ No exporters of rice or wild animals were interviewed face-to-face. Exports of these products in 2010 were also low, explaining this issue of sampling.

⁴² Direct statement of the Ministry of Trade and Industry to ITC. Also stated in: WTO. Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 29.

⁴³ Based on the officially available list of products, but also including companies that reported to need export licenses for products which are not listed.

It is essential to understand the point at which the export licensing scheme becomes an impediment for exporters. Almost all affected companies referred to delays in obtaining the licenses from MoIT and MoAFS as the core of the obstacle (tables 11 and 12). The procedure runs as follows: The exporter has to apply for a letter of consent at MoAFS, which scrutinizes each application on a case-by-case basis. Once with the letter of consent, the exporter asks for the export license at MoIT. While technical staff at MoIT apparently deals with the license rather quickly, legislation requires the Minister's approval for each license. In addition, MRA reported cases of forgery of the paper-based licenses. For that reason, MRA verifies licenses with MoIT once the consignment reaches the border. Further delays emerge from this procedure.

In total, delays in these procedures varied strongly and ranged between one week and two months. Only one company reported that it could not export at all – in fact, the license for maize exports was withdrawn after being issued. In all other cases, the export license was issued at some point in time. The unpredictable time required to obtain a license was an impediment for business planning and caused difficulties especially with less established customers. In general, delays also add up to already long turn-around times to provide goods to international customers.

The survey sample does not show a clear pattern of the duration of delays with respect to different products. While, for example, a license for maize exports did require two months in one case, another company obtained the permit in just over a week. Export licenses for tea and cotton were delayed by almost a month. Differing across companies, export licenses for pulses and oil seeds took between one week and a month. In general, companies mostly reported the same duration of delays for all their exported products, also indicating that the product does not play a significant role. Representatives of three companies were explicitly asked, but denied a systematic difference in delays with respect to the export product.

Company size, however, does seem to matter. While the share of affected companies in the sample was very similar across company sizes (38% and 41% among SMEs and large companies, respectively),⁴⁴ the duration of delays tends to be longer for SMEs. Interviewed SMEs face average delays of about 5 weeks, whereas large companies' delays average 2.7 weeks. It is important to note that results at this level of sample-disaggregation cannot be considered representative.⁴⁵ Nevertheless, it stands out that only large companies were given export licenses in less than two weeks. Detailed face-to-face interviews led to the impression that personal connections between some large companies and the authorities may be a determinant of how quickly a license can be obtained. Corruption, however, was never explicitly reported.

The survey results deliver interesting anecdotal evidence, despite being based on an arguably small sample size. Delays to obtain export licenses are often substantial and particularly long for SME exporters. The use of the export licensing scheme generally seems questionable if it almost exclusively causes delays (only one company reported a withdrawn license) and does not serve the purpose of restricting exports, which may itself be debatable. However, it must also be noted that the reference period of the survey is from October 2009 until early 2011, during which Malawi was not affected by a particular food shortage. It therefore could be that in years of bad harvests, the scheme may be used to actually reduce the outflow of food commodities. Further considerations and policy options to minimise unnecessary procedural frictions are discussed in section 2.6 of this chapter.

'One week.'

A large exporter of peas, beans, groundnuts and sunflower seed.

'More than one week.'

A large exporter of maize, peas, beans, groundnuts, sesamum seed and chillies.

'Two to four weeks.'

A large exporter of peas, beans and black tea.

'Three to four weeks.'

A small exporter of peas, beans, sesamum seed, paprika and chillies.

'Almost one month.'

A small exporter of black tea.

'One month.'

A large exporter of cotton lint.

'One month.'

A large exporter of groundnuts.

'Two months.'

A medium-sized exporter of maize.

Delays of export licensing procedures according to different exporters of agricultural products (ITC survey on NTMs in Malawi)

⁴⁴ Based on those companies exporting products to which export licensing requirements are applied.

⁴⁵ The calculation of average durations of delays is based on 3 SMEs and 7 large companies that reported export licenses as an obstacle.

2.3.2. Export certification and inspections

About 26% of the interviewed agro-exporters have reported obstacles in relation to certifications and inspections that were required by Malawian authorities. MBS confirmed that, in addition to voluntary inspections under the Export Quality Certification Scheme, some export inspections are mandatory. A variety of products is affected by these measures, including tobacco, which represents more than 70% of the agricultural sector's exports (table 10). The exact requirements are product-specific. They range from common fumigation inspections and plant protection certificates to bird-flu-free certification. While some exporters experience these measures as a minor procedure to which they had become accustomed to (e.g. tobacco, wheat), others complained about the loss of significant amounts of cargo (live poultry and eggs).

Exporters are barely troubled by the strict technical requirements themselves, but rather by the entailed procedures in Malawi (table 11). The vast majority of exporters (89%) mentioned POs with respect to MoAFS and the implementing DARTS with its Agricultural Research Stations (table 12).⁴⁶ Delays are the most common obstacles associated with export certification and inspection. These delays were reported to last between three days and four weeks. Apart from delays, exporters lament fees and a redundancy of conformity assessment procedures. For instance, while tobacco exporters face strict technical regulations already imposed by partner countries and need to obtain certifications from private-sector facilities (given that MBS is not accredited), consignments still undergo an additional export inspection in Malawi.

2.3.3. Export revenue conversion requirement – '60/40 rule'

The so-called '60/40 rule' used to regulate that 40% of export revenue had to be converted into local currency MK. After the liberalization of the exchange rate regime in May 2012, RBM is phasing-out this measure towards the end of 2012.

Even before the liberalization, only 9% of the interviewed agricultural exporters reported challenges with regard to the '60/40 rule' (table 10). However, the measure represented a part of formerly applied foreign exchange controls that were bigger issue: Until 7 May 2012, the MK had been practically pegged to the US dollar and overvalued against it. Malawi experienced a strongly negative trade balance and faced a severe foreign exchange shortage.⁴⁷ Maintaining favourable exchange rates for imports of essential food commodities to ensure food security was seen as the main rationale for the fixed exchange rate policy.⁴⁸ Exports, however, suffered from high export prices of Malawian goods that foreign buyers had to pay.

To defend the exchange rate of the pegged MK, Malawian authorities applied currency control measures to both exports and imports. On the import-side, given the short supply of foreign exchange, Malawian authorities imposed an import authorization requirement. Challenges related to this measure were major impediments, which are discussed in the sections dealing with imports (sections 2.4 and 3.2.2 of this chapter).

The '60/40 rule' on exports was the other essential part of the foreign exchange control system. In order to be able to restrict the outflow of foreign exchange through the import authorization mechanism, authorities first needed to gain control over sufficient amounts of foreign currency. This objective was implemented through the conversion requirement of 40% of export revenue. It was administered by RBM and MRA.

While the export revenue conversion requirement was barely seen as an obstacle per se, but rather the import restrictions, some challenges arose from the procedures of implementation. The procedure was as follows: When exporting a consignment worth more than US\$ 1,000, exporters needed to fill an exchange control form (CD1 form), which needed to be endorsed by an RBM-authorized dealer bank and cleared through MRA at customs. Copies of the CD1, for subsequent administration of revenue conversion, were submitted to RBM and MoIT.⁴⁹ The exporters of agro-based products reporting problems with the '60/40 rule' mentioned that delays of 1-4 days arose at the endorsing banks or at MRA/customs.

⁴⁶ See also <http://www.sdn.org.mw/darts/index.htm> for more information on DARTS.

⁴⁷ WTO. Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 2.

⁴⁸ Economist Intelligence Unit (August 2011), p. 13.

⁴⁹ MRA online information accessed at http://www.mra.mw/exports_from_open_stock.php; and WTO. Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 28.

Table 10: Export of agricultural products: burdensome NTMs applied by Malawian authorities

Reported export products			Export to the world		Number of reported NTM cases				
Product group	HS product code (as reported)	Product code description (abridged)	Product's export value in 2010, US\$ '000	Share of product in the sector's export value*	Export inspection, certification and technical requirements	Export licences and other quantitative restrictions	Export taxes and charges	Foreign exchange export related measures	Sub-total
Pulses and other vegetables	070960	Fresh or chilled fruits of the genus Capsicum or Pimenta	18	0.00%		1			1
	071310	Dried, shelled peas Pisum sativum", whether or not skinned or split"	13,252	1.58%		2	1		3
	071320	Dried, shelled chickpeas garbanzos", whether or not skinned or split"	2,391	0.28%		1	1		2
	071333	Dried, shelled kidney beans Phaseolus vulgaris", whether or not skinned or split"	3,990	0.47%		1			1
	071339	Dried, shelled beans Vigna and Phaseolus", whether or not skinned or split"	42	0.00%		1			1
	071340	Dried, shelled lentils, whether or not skinned or split	19	0.00%		1			1
	071390	Dried, shelled leguminous vegetables, whether or not skinned or split (excl. peas, chickpeas, beans, lentils, broad beans and horse beans)	7,414	0.88%		3	1		4
Tea and spices	090230	Black fermented tea and partly fermented tea, whether or not flavoured, in immediate packings of <= 3 kg	166	0.02%		2			2
	090420	Fruits of the genus Capsicum or of the genus Pimenta, dried or crushed or ground	23	0.00%		2	1		3
Cereals	100190	Wheat and meslin (excl. durum wheat)	441	0.05%	1				1
	100510	Maize seed	381	0.05%	1	1		1	3
	100590	Maize (excl. seed)	3,018	0.36%		2			2
	110100	Wheat or meslin flour	1,676	0.20%	1				1
Oil seeds and processed products thereof	120100	Soya beans, whether or not broken	4,681	0.56%		2			2
	120210	Groundnuts in shell, not roasted or otherwise cooked	62	0.01%		1			1
	120220	Shelled groundnuts, whether or not broken (excl. roasted or otherwise cooked)	5,949	0.71%		2			2
	120600	Sunflower seeds, whether or not broken	747	0.09%		2			2
	120740	Sesamum seeds, whether or not broken	34	0.00%		2			2
	120810	Soya bean flour and meal	4,295	0.51%		2			2
	200811	Groundnuts, prepared or preserved (excl. preserved with sugar)	45	0.01%	1				1
Sugar	170111	Raw cane sugar (excl. added flavouring or colouring)	68,966	8.20%		1		1	2

Table 10 (cont'd)

Reported export products			Export to the world		Number of reported NTM cases				
Product group	HS product code (as reported)	Product code description (abridged)	Product's export value in 2010, US\$ '000	Share of product in the sector's export value*	Export inspection, certification and technical requirements	Export licences and other quantitative restrictions	Export taxes and charges	Foreign exchange export related measures	Sub-total
Tobacco	240110	Tobacco, unstemmed or unstripped	241,613	28.73%	2				2
	240120	Tobacco, partly or wholly stemmed or stripped, otherwise unmanufactured	331,089	39.37%	1				1
Cotton	520100	Cotton, not carded or combed	11,714	1.39%		1			1
Other raw and processed agricultural and food products	010511	Live fowls of the species Gallus domesticus, weighing <= 185 g (excl. turkeys and guinea fowls)	76	0.01%	1				1
	0401XX	Milk and cream, not concentrated nor containing added sugar or other sweetening matter, not specified at the HS 6 level	n.a.	n.a.	1				1
	040700	Birds' eggs, in shell, fresh, preserved or cooked	55	0.01%	1	1			2
	060319	Fresh cut flowers and buds, of a kind suitable for bouquets or for ornamental purposes (excl. roses, carnations, orchids, chrysanthemums and gladioli)	176	0.00%	1				1
	190531	Sweet biscuits	818	0.10%				1	1
Total			703,151	83.59%	11	29	4	3	49

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* Value of total export of agricultural products in 2010 is US\$ 840,925,000.

Table 11: Export of agricultural products: NTMs applied by Malawi and reasons making them burdensome

NTM Chapter	Number of NTM cases	Type of associated procedural obstacles	Number of associated procedural obstacle cases			Burdensome NTM requirements without associated POs
			in partner country	in home country	Sub-total of POs	
Export inspection, certification and other technical specification	11	D1. Delay in administrative procedures		6	6	
		I1. Other obstacles		2	2	
		A4. Large number of checks		1	1	
		E1. Unusually high fees and charges		1	1	
		F1. Limited/Inappropriate facilities		1	1	
		H5. Lack of recognition, e.g. of national certificates		1	1	
		No PO, only NTM requirement itself imposes a burden				
Export licences, quotas, prohibitions and other quantitative restrictions	31	D1. Delay in administrative procedures	1	28	28	
		D2. Delay during transportation		1	2	
		H1. No advance binding ruling procedure		1	1	
Export taxes and charges	4	No PO, only NTM requirement itself imposes a burden				4
Other export related measures	3	D1. Delay in administrative procedures		3	3	
		I1. Other obstacles		2	2	
Total	49		1	47	48	5

Source: ITC Survey on NTMs in Malawi, 2010-2011.

Table 12: Export of agricultural products: POs at domestic institutions and in partner or transit countries

POs and inefficient TBE	Number of cases that occurred...					
	in Malawi (and agencies involved, if specified)		in partner countries		in transit countries	sub-total
D1. Delay in administrative procedures	38	MoIT (17), MoAFS (8), 'MoAFS and MoIT' (6), 'MRA and MCCI' (2), DARTS (4), MRA (3), Reserve Bank of Malawi	8	Egypt (4), Zambia (2), Kenya, Egypt	Mozambique	50
E1. Unusually high fees and charges	5	Ministry of Foreign Affairs (4), MoAFS	6	Egypt (4), United States (2)		11
F1. Limited/Inappropriate facilities	7	MBS (6)*				7
H5. Lack of recognition e.g. of national certificates	7	MBS (6), DARTS				7
D3. Deadlines set for completion of requirements are too short					South Africa (3)	3
A4. Large number of checks	1	DARTS	1	Egypt		2
B1. Information is not adequately published and disseminated			1	United Arab Emirates		1
H1. No advance binding ruling procedure	1	MoAFS				1
I1. Other obstacles	5	Reserve Bank of Malawi (2), DARTS, MRA				4
Total	66		16		4	86

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* Institution not specified.

2.4. Companies' experiences with regulations affecting imports

Malawi is a net-exporter of agricultural goods, whereas it imports mostly manufactured goods and fuels. Only 15% of total imports (including fuels) were agricultural and food commodities in 2010. The amount of agricultural imports depends on domestic production and therefore fluctuated over the last decade due to the varying harvests. Cereals, as an essential food source, and vegetable fats constitute the most important sub-groups for domestic consumption. They represent 28% and 13% of total imports in the sector, respectively. The survey covers face-to-face interviews with seven importers of these specific food commodities and six importers of various other raw and processed agricultural and food products. Tobacco represents 30% of import value and is mostly sourced from Zambia. These imports are destined for re-export. Tobacco is therefore discussed in the export-related parts of this chapter (sections 2.2 and 2.3) and in a specific section dedicated to the product (section 2.5.1).

Overall, among the 13 surveyed companies that reported to import agricultural and food products in the face-to-face interviews, 54% face impediments to these imports. All of them encountered NTMs applied by Malawian authorities. The challenges faced by the importers of food and agricultural commodities stem from policies equally affecting importers of manufacturing goods. Two recurring issues of particular concern to importers of agricultural products are discussed below: inspections (and fees) and foreign exchange controls. A detailed analysis of impediments to imports is reserved for the section on manufacturing (section 3), as the sample of manufacturing importers is larger (representing a large share of manufactured goods in total imports).

Inspections of technical conformity with standards are usually conducted upon arrival of the shipment (conformity assessment, table 13). It is also reported that an inspection of a pre-shipment sample of the product is required to obtain an import permit (pre-shipment inspection for vegetable fats, table 13). These inspections fall under the IQMS implemented by the MBS and facilities of the DARTS Research Stations. MBS confirmed that all those products to which mandatory standards are applied must be inspected, which is basically the case for all food commodities. An IQMS fee is levied on import inspections, which was also perceived as a burdensome NTM by one in five interviewed importers in the agricultural sector. The importer's particular concern in this respect was that he had to pay the fee despite providing respective certificates from foreign testing facilities. Apart from this case, the main challenge with the inspection scheme is delays (table 15). The delays experienced at inspection facilities of MBS and DARTS were reported to be about 3-4 days (table 14). In an additional interview, however, MBS pointed out that certain test methods take time from a mere scientific perspective; e.g. some incubation times in microbiological testing are at least 7 days long. MBS also emphasized that if product, exporter and importer are 'known' from previous shipments, only samples of the consignment are taken for tests. The rest of the shipment would be allowed to enter directly on a provisional basis, but could be withdrawn from the market if test results were not satisfactory. Keeping the entire shipment until completion of inspections, or demanding pre-shipment inspections or samples are required for 'new' import transactions. Physical inspections of non-technical aspects, e.g. comparing shipments to documentation against smuggling, are conducted by MRA at customs. According to the WTO Trade Policy Review, about 75% of imports are inspected. However, these checks were only reported as an obstacle by 14% of interviewed agro-importers (wheat imports in table 13).

Until May 2012, Malawi applied a fixed exchange rate regime that strongly overvalued the MK over the US\$. This entailed a foreign exchange control system that had an export-related and import-related component. Since the exchange rate has been liberalized, both of these regulations have been eliminated. Before, during the reference period of the survey, the situation was as follows: Section 2.3.3 of this chapter discussed the revenue conversion requirement that used to be applied to exports. The foreign currency stocks obtained by RBM through the '60/40 rule' were then made available only for authorized import operations. For import operations worth less than US\$ 50,000 clearing through a commercial bank was sufficient. Above that amount, however, a special authorization from the RBM was required. From the sample of all agricultural importers interviewed face-to-face, 31% reported challenges relating to this measure (finance measures, table 13). The companies explained that they could almost always obtain foreign currency at some point in time, but that delays at the RBM were substantial and causing major disruptions of their business operations (tables 14 and 15). For transactions exceeding the threshold value of US\$ 50,000, delays of one to four months or longer were reported. Furthermore, companies perceived the length of the delay as unpredictable, which additionally caused serious problems in business planning.

Table 13: Import of agricultural products: burdensome NTMs applied by Malawian authorities

Reported export products		Import from the world		Number of reported NTM cases					
HS product code (as reported)	Product code description (abridged)	Product's import value in 2010, US\$ '000	Share of product in the sector's import value*	Conformity assessment	Pre-shipment inspection and formalities	Charges, taxes and other para-tariff measures	Quantity control measures	Finance measures	Sub-total
010619	Live mammals	69	0.02%	1					1
100190	Wheat and meslin (excl. durum wheat)	47,000	14.64%	1					1
100510	Maize seed	4,214	1.31%	1			1	1	3
110100	Wheat or meslin flour	2,294	0.71%		1			1	2
151620	Vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised, whether or not refined, but not further prepared	547	0.17%		1	1		1	3
190531	Sweet biscuits	876	0.27%					1	1
Total	n.a.	54,055	16.84%	3	2	1	1	4	11

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* Value of total import of agricultural products in 2010 is US\$ 321,009,000.

Note on NTMs applied by partner countries: Only one case of an export certification by South Africa was reported to be applied to 'live mammals' (HS: 010619). Imports of 'live mammals' are worth US\$ 70,000 (US\$ 68,000 from South Africa), and represent 0.02% of Malawi's agricultural imports.

Table 14: Import of agricultural products: POs and inefficient TBE at domestic institutions and in partner countries

POs and inefficient TBE	Number of PO/TBE cases that occurred...						
	in Malawi (and agencies involved, if specified)		in partner countries		in transit countries		sub-total
D1. Delay in administrative procedures	6	RBM (4), MoIT, DARTS	1	South Africa			7
D2. Delay during transportation	2	DARTS, MRA					2
H5. Lack of recognition e.g. of national certificates	2	MBS (2)					2
A4. Large number of checks	1	MBS					1
D3. Deadlines set for completion of requirements are too short	1	*					1
F1. Limited/Inappropriate facilities	1	MBS					1
G1. Low security level for persons and goods					1	South Africa	1
Total	13		1		1		15

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* Institution not specified.

Table 15: Import of agricultural products: NTMs applied and reasons making them burdensome

NTM Chapter	Number of NTM cases	Type of associated procedural obstacles	Number of associated procedural obstacle cases			
			in partner country	in home country	in transit country	sub-total of POs
NTMs applied by home country						
Conformity assessment	3	A4. Large number of checks		1		1
		D1. Delay in administrative procedures		1		1
		D2. Delay during transportation		1		1
Pre-shipment inspection and other formalities	2	D2. Delay during transportation		1		1
		F1. Limited/Inappropriate facilities		1		1
		G1. Low security level for persons and goods			1	1
		H5. Lack of recognition e.g. of national certificates		1		1
Charges, taxes and other para-tariff measures	1	H5. Lack of recognition e.g. of national certificates		1		1
Quantity control measures	1	D1. Delay in administrative procedures		1		1
Finance measures	4	D1. Delay in administrative procedures		4		4
		D3. Deadlines set for completion of requirements are too short		1		1
NTMs applied by partner countries						
Export certification	1	D1. Delay in administrative procedures	1			1
Total	12		1	13	1	15

Source: ITC Survey on NTMs in Malawi, 2010-2011.

2.5. Analysis of important sub-sectors

2.5.1. Tobacco

Tobacco has been grown in Malawi since the 1890s and evolved to be the country's most important cash crop representing 13% of GDP and 55% of total exports in 2010.⁵⁰ However, the steep decline in tobacco sales by about two thirds in the first half of 2011, as compared to the same period in 2010, casts serious doubts over the sector's prospects.⁵¹ Tobacco production in 2011 dropped to 151,500 metric tons from 237,171 tons in 2010. Prices in the first month of auction in 2012 are higher than the previous year, but still below expectations.⁵²

On the production-side, the sector has undergone significant changes over the last two decades. In the 1990s, in a first major step towards liberalizing tobacco production, smallholders were given permission to

⁵⁰ Enhanced Integrated Framework (2002), chapter 4, p. 1ff; ITC calculations based on Trade Map.

⁵¹ As per 29 July 2011, only tobacco worth US\$ 118 million was sold, with US\$ 334 million over the same period last year. The Nation, "Alarming – Ligoya", 12 August 2011, online news article, available at: http://www.nationmw.net/index.php?option=com_content&view=article&id=24138:alarmingligoya&catid=11:business-news&Itemid=4, accessed on 20 December 2012.

⁵² Bloomberg Business Week, Malawi Sells Tobacco at 32% Below Government-Mandated Price, article from 1 May 2012; online news article, available at: <http://www.businessweek.com/news/2012-05-01/malawi-sells-tobacco-at-32-percent-below-government-mandated-price>, accessed on 20 December 2012.

produce all varieties of tobacco. Previously, production of high-value burley and flue-cured tobacco was restricted to estates.⁵³ During the 1980s entrepreneurs set up around 30,000 small estates on customary land, while in the 1990s smallholders and villages organized themselves into so-called 'clubs'.⁵⁴ By 2007, about 11,000 estates remained, whereas the number of registered 'clubs' had increased to almost 16,000.⁵⁵

The domestic sales-system has also been reformed. Growers generally sell to merchant companies on the auction floors of Auction Holdings Ltd, where both sellers and buyers must be registered. Estates could always sell directly to merchants and international buyers at the auction. Before 1992, smallholders (and 'clubs') could only sell through the parastatal Agricultural Development and Marketing Corporation (ADMARC). After a transitional phase when private-sector intermediary buyers were allowed (until their renewed prohibition in 2000), 'clubs' can now sell directly at the auction, too.⁵⁶ Recently, 'contract-growing' has also been introduced. In this new business model, the buyer guarantees to buy tobacco from the grower at the auction floor prior to the growing season. With this guarantee, the grower, even smallholders, are able to obtain bank loans for farm inputs such as fertilizers. This is considered to improve productivity and be of mutual benefit to growers and buyers. The volume of contract-sales has increased sharply since 2005 and is currently estimated to be at least 30% of total sales.⁵⁷

Seven large buyers and exporting merchants dominate demand for the growers' raw product. They are mostly subsidiaries of multinational tobacco companies in the United States and United Kingdom.⁵⁸ These merchants also process the raw tobacco for export, e.g. cleaning, threshing, drying and grading. At the global demand level, however, the outlook for tobacco consumption is dubious due to health concerns. Anti-smoking legislations and initiatives in many developed countries are showing an impact with per capita cigarette consumption and imports decreasing in most of these developed countries in 2008-09.⁵⁹ The World Health Organization's Framework Convention on Tobacco Control (WHO FCTC) inevitably also puts strong pressure on Malawi's tobacco industry.⁶⁰ Even in quickly emerging tobacco markets like China and the Russian Federation, high absolute levels of per capita smoking have been reached. Taking current levels of per-capita cigarette consumption in Europe and the US as a benchmark, only minimal increases in emerging markets can be expected in the long-term.⁶¹ In fact, worldwide imports of unmanufactured tobacco have only experienced slow growth over the last years and even decreased in 2010.

The impediments to exports reported in the ITC survey were quite diverse and will be described below. The discussion on burdensome NTMs is based on face-to-face interviews with five tobacco merchants, as they are the companies dealing with international trade. However, to complete the picture, an additional in-depth interview was conducted at TAMA which is a major representative of growers and smallholders.

Referring to NTMs applied in partner countries, notably 60% of the enterprises reported difficulties with regulations in Egypt (see also table 8), the largest African market for Malawian tobacco (17% of total tobacco exports). Given that tobacco is already inspected in Malawi and certified by a private-sector facility, exporters perceive physical technical inspections at the Egyptian border as redundant. This issue also concerns a lack of recognition of the inspection documents issued at the Agricultural Research station of DARTS (see tables 9 and 12). This case stands out since only few cases of non-recognition are reported for exports to COMESA members. Furthermore, one exporter faced a challenge in obtaining the certificate of origin, which is required for Malawian exporters to benefit from COMESA tariff preferences.

⁵³ Enhanced Integrated Framework (2002), chapter 4, p. 1ff.

⁵⁴ *Ibid.*, p. 2.

⁵⁵ Tobacco Control Commission, Grower Information, online information available at: <http://www.tccmw.com/growers.htm>, accessed on 20 December 2012. Latest available data is for 2007.

⁵⁶ Harashima (2008), p. 5.

⁵⁷ Information from stakeholder interview with a representative of the Tobacco Association of Malawi (TAMA). For the 2008/09 season, the WTO Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 42, confirms a 34% share of contract-buying volume.

⁵⁸ WTO. Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 42.

⁵⁹ Euromonitor International, World Cigarette Consumption Growth, online information available at: <http://blog.euromonitor.com/2010/05/world-cigarette-consumption-growth.html>, accessed on 20 December 2012.

⁶⁰ WHO pre-hearing submission by TAMA, Malawi, 11 March 2000. Online information accessed at: http://www.who.int/tobacco/framework/public_hearings/tobacco_growers_association_of_malawi_growers_association_of_tobacco.pdf, accessed on 20 December 2012.

⁶¹ The American Cancer Society (2009), p. 32f.

The additional requirement for a stamp from the Egyptian embassy has reportedly caused delays and cost a small fee, and therefore goes beyond the standard documentation from MCCI (table 12). A certificate of non-manipulation from the last point of shipping before reaching Egypt also has to be provided and must be countersigned by the Egyptian embassy. This administrative procedure involved delays of up to three weeks and cost a significant stamp fee (table 12).

Obstacles experienced with other partner countries were less frequent (see table 8), but also worth mentioning. Difficult processing and packaging standards were reported to apply in South Africa. In the United States, the timely completion of the Importer Security Filing (IFS) Form from the Customs and Border Protection authority posed a difficulty for one exporter. Benefitting from the EU GSP requires compliance with rules of origin. While the rules of origin were not viewed as an impediment per se, it takes very long (1-3 months) to obtain the certificate of origin from the MRA (see also tables 9 and 12).

Domestic issues with NTMs were mentioned by 60% of the interviewed exporters. They all referred to inspection and certification requirements demanded by Malawian authorities. Namely, fumigation inspection and plant protection certificates mandated by MoAFS and implemented by the Agricultural Research station of DARTS. The complaints referred to three procedural obstacles (table 11): First, the redundancy of measures as compared to previously mentioned requirements in partner countries that already impose high quality requirements. Second, a lack of recognition of the domestically issued certificates in the partner countries reiterates the first point of redundancy. Third, delays and costs at the domestic authorities were felt to be considerable. Without doubt, the high quality of tobacco exports is essential for the industry's image abroad. Past incidences of plastic residuals in tobacco had a strong impact on customer relations and caused a strong reaction in Malawi's tobacco industry.⁶² Nevertheless, solutions have to be sought to minimize procedural frictions and redundancies.

Notably in comparison to other agricultural sectors, where licensing procedures at MoAFS and MoIT were mayor obstacles, tobacco exporters did not mention challenges with respect to licensing by TCC. Technical staff at TCC issued the licenses very quickly. Thus, tobacco exporters do not perceive them as an obstacle worth mentioning. TAMA also explained that overproduced tobacco, beyond the distributed license rights, was destroyed until 2005 but is only fined nowadays. Again, exporters did not report any problems in this respect. Furthermore, issues concerning auctions, such as auction fees, are not directly export-related and therefore beyond the scope of the survey.

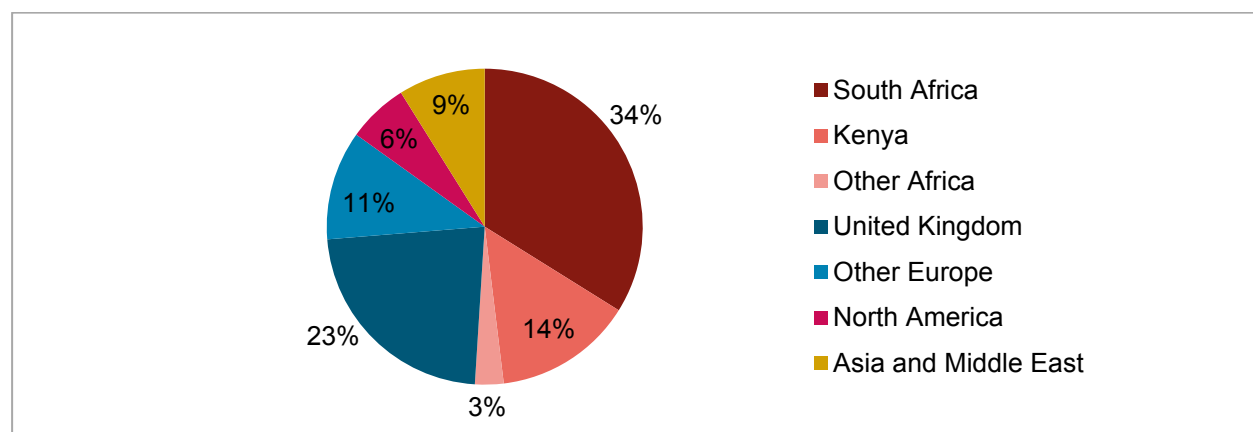
On a voluntary basis, some initiatives are being undertaken to improve labour standards and other aspects of sustainability. According to TAMA, the International Programme on the Elimination of Child Labour (IPEC), in cooperation with several public and private partners, is taking action against an apparently high prevalence of child labour in the tobacco production.⁶³ Efforts to comply with the Good Agricultural Practices (GAP) codes and standards are also promoted. These standards may be beneficial for the image of Malawian tobacco and increase export values.

2.5.2. Tea

Tea, like tobacco, has a long history of production in Malawi, dating back to the late 19th century. Nowadays, it remains the second largest agricultural earner of foreign exchange, although far behind tobacco, accounting for 8% of total exports. After Kenya, Malawi is the second largest tea producer and exporter in Africa. Half of Malawi's tea exports go to African partner countries, mostly to South Africa, but also to Kenya, where Malawian tea is often blended and re-exported. Exports to South Africa and Kenya have respectively grown by an annual average of 25% and 19% between 2006 and 2010. Almost a quarter of exports are destined for the United Kingdom, substantially owing to long-standing commercial ties originating from their colonial history. However, Malawi's market share in the United Kingdom's tea imports has halved over the last decade. Other European markets, the United States and Pakistan are also significant importers of Malawian tea (see figure 18). So far, almost all Malawian tea exports are in bulk packages exceeding 3kg (more than 99%). The few exports in smaller retail packages are destined for regional markets.

⁶² Information from an interview at TAMA.

⁶³ For example, see online news article, The Guardian, Malawi's child tobacco pickers 'being poisoned by nicotine', 24 August 2009, available at: <http://www.guardian.co.uk/world/2009/aug/24/malawi-child-tobacco-pickers-poisoned>, accessed on 20 December 2012.

Figure 18: Export destinations of tea, 2010

Source: ITC calculations based on Trade Map data.

Tea is mostly grown on nine large estates and by about 10,000 smallholders organized in the National Smallholder Tea Development Committee.⁶⁴ Since tea is a seasonal crop, employment varies over the year but peaks at up to 50,000 people on the estates alone.⁶⁵ Similar to the domestic tobacco market, a distinction can be made between producers and merchants. They are organized in the Tea Association of Malawi and the Tea (and Coffee) Merchants Association of Malawi, respectively. The latter specialise in processing, blending and exporting, and mostly buy raw green tea leaves at the 'Tuesday Auction' or directly from smallholders.⁶⁶ However, the distinction between the two company types is less rigid and the domestic market less regulated than the tobacco market. Some estates therefore also process, blend and export directly to international customers. Both merchants and exporting estates are in the sample of interviewed companies. In addition to five of these companies, representatives of the Tea Association of Malawi and the Tea (and Coffee) Merchants Association of Malawi were interviewed for deeper insights.

When exporting, these companies did not experience particular difficulties in the main established markets. In some partner countries with less steady import relationships, however, some challenges did arise (see table 8). Exporting to Australia was affected by the lack of international accreditation of MBS, due to which sanitary certificates were rejected. This common challenge is discussed in section 2.2.1 of this chapter. In Sri Lanka, Japan and the United Arab Emirates some more particular issues were encountered by individual interviewed companies. Sri Lanka, as a major high-quality exporter of tea, imposes very strict import standards to avoid degrading blends of Ceylon tea with imported tea.⁶⁷ The Malawian exporter had difficulty in complying with these high quality and low chemical residual requirements. Japan, as a consumer of high-quality tea,⁶⁸ requires very detailed information about all steps of production and processing. Providing such documentation for a single market was considered as an obstacle in terms of costs and time. Labelling requirements in the United Arab Emirates were reported to be complicated, also due to language issues. The company remarked that new entrants, without the help of an importing partner-company, may face serious difficulties in this respect.

Domestically, 40% of the interviewed tea exporters faced delays of up to 4 weeks when applying for export licenses. Section 2.3.1 discusses this recurring issue in further detail. The rationale behind the export licensing scheme for tea is questionable for the following reasons: First, food security does not play a role for a non-food product. In fact, none of the companies experienced a case in recent years where export quantities were actually restricted. Second, quality control, safety and health of people is ensured through technical requirements and conformity assessment demanded by importing partner countries. Consequently, the negative effect of delays and administrative obstacles appears particularly disproportionate.

⁶⁴ WTO. Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 43.

⁶⁵ Fairtrade Foundation (2010), p. 1.

⁶⁶ Information from stakeholder interview at the Tea and Coffee Merchants Association of Malawi.

⁶⁷ ITC (2011), p. 29ff.

⁶⁸ Import unit values of tea according to ITC Trade Map data are high.

In terms of international demand, exporters and experts from the tea associations⁶⁹ have explained that established long-term relationships with customers play a very important role. These relationships facilitate export procedures. Given that the majority of merchants are subsidiaries of multinational enterprises, exports are also channelled through established networks. Penetrating new markets is perceived as difficult, owed also to Malawi's landlockedness and difficult transit routes that require flexible importing partners and a certain basis of trust. However, in the United Kingdom, a market with particularly long-standing partner relationships, Malawi's market share has strongly declined from shares around 5% until 2005 to 2.3% in 2010. In contrast, Malawi could expand market shares in all other major destination markets in Africa, Europe, Asia and North America. Furthermore, tea exporters also successfully started to access new markets, particularly in Asia.⁷⁰

Producers and merchants differed in opinion about whether growth in quantities could be maintained at this level. The merchants still see a large potential for quantitative expansion.⁷¹ The producers' association, however, felt that production limits had almost been reached due to limited land and irrigation.⁷² Although the quality of Malawi tea is regarded as good,⁷³ unit values per ton of exported tea in 2010 were only average compared to most other competing African net exporters, and significantly lower than Kenya's unit values.⁷⁴ While merchants aim at expanding quantities, producers see increased direct selling, a higher domestic value-added and improved marketing as the way forward.

Opportunities are seen in voluntary private standards as a possible means for marketing and higher selling prices. In face-to-face interviews, 40% of the surveyed tea exporters reported challenges with private standards. The private standards that Malawian tea exporters chose to certify are Fairtrade and Rainforest Alliance (see table 16).

Even though the producers themselves were certified by Fairtrade, not all of their exports could be exported Fairtrade-certified under the respective logo. Fairtrade requires all entities of the value chain to be certified, i.e. producer, trader and buyer in the partner country.⁷⁵ Therefore, the companies can only export as Fairtrade if there is demand from *certified* buyers in the respective destination countries. The interviewed Malawian tea exporters reported that this is exclusively the case in some developed markets. As destinations for Fairtrade-certified tea, the exporters mentioned Germany, the United Kingdom, the Netherlands, the United States and Japan. While the 'triple-certification' was mentioned as a downside of the Fairtrade certification scheme, the companies remarked that they were not expecting a high mark-up on certified tea in developing countries. Yet, in those developed markets where their product is sold as Fairtrade tea, mark-ups could be achieved. Certified buyers under the Fairtrade scheme must comply with minimum prices guaranteed to the seller, i.e. the estate or merchant. In addition, buyers have to pay a premium of US\$ 0.50 per kg of tea to the producer. This premium goes to the hired labour communities on the estates or to small producers' organizations, not to the estate owners.⁷⁶ This significant benefit for estate workers was confirmed by the interviewed tea exporters.

With the scope of Rainforest Alliance being less economic and more production-related, only the producer needs to be certified. This allows exports certified under the Rainforest Alliance label to any destination market.

⁶⁹ Tea Association of Malawi and Tea (and Coffee) Merchants Association of Malawi.

⁷⁰ ITC Trade Map data.

⁷¹ Information from an interview at Tea and Coffee Merchants Association of Malawi.

⁷² Information from an interview at Tea Association of Malawi.

⁷³ Fairtrade Foundation (2010), p. 1.

⁷⁴ ITC Trade Map data.

⁷⁵ See also ITC Standards Map for more information on private standards: <http://www.standardsmap.org/>

⁷⁶ Information on Fairtrade minimum prices and premiums available at: http://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/2011-09-19_EN_Fairtrade_Minimum_Price_and_Premium_table.pdf (accessed on 20 December 2012) and http://www.fairtrade.net/uploads/media/280410_Database_Users_guide.pdf (accessed on 20 December 2012).

From the corporate perspective, the apparently high costs of certification, reasonably high labour costs and low use of chemicals practically balanced out the additional revenue of sales under Fairtrade and Rainforest Alliance labels. One company even pointed out that the certification procedure per se was the most costly component of Fairtrade requirements (see quotation box on this page). In addition to an application fee of €500, additional costs of initial certification are estimated at €3,200 – €3,600. Annual auditing to maintain certification costs approximately €2,362 – €2,625.⁷⁷ These costs may indeed counterbalance additional profits at the corporate level.

The poverty-reducing benefit of premiums to hired labour, however, remains untouched by corporate finances. This must be strongly emphasized as it is at the core of the Fairtrade idea. Three smallholder associations have already led the way by becoming Fairtrade certified at the producer-level. They represent almost 10,000 smallholder tea growers and sell raw green-leaf tea to estates for processing and export.⁷⁸ Smallholder associations are eligible for financial support for certification through Fairtrade's Producer Certification Fund.⁷⁹ Local non-governmental institutions, like the tea associations, can help smallholder groups with their application for grants under the Fund. In light of the increasing competition in the voluntarily certified products market, cooperation is essential to overcome the burden of certification costs.

Private standards can be regarded as a viable perspective for tea exports. The increased value-added and international visibility of Malawian tea when certified under private standards may also provide greater opportunities to access consumer markets more directly.

Table 16: Exports of tea affected by private standards

Reported export products		Export to the world	Private standard
HS product code (as reported)	Product code description (abridged)	Product's export value in 2010, US\$ '000	Private standard reported to be challenging (number of firms reporting)
090220	Green tea in packages exceeding 3 kg	3	Fairtrade (1)
			Rainforest Alliance (1)
090240	Black fermented tea and partly fermented tea in packages exceeding 3 kg	80,609	Fairtrade (2)
			Rainforest Alliance (1)

Source: ITC Survey on NTMs in Malawi, 2010-2011.

Note: Private standards are voluntary and applied by private entities, not by an importing country's government.

⁷⁷ Estimates by "Cooperation Technique Belge" - Trade for Development Centre, published in ITC Standards Map, available at <http://www.standardsmap.org>, accessed on 20 December 2012.

⁷⁸ Fairtrade Foundation, (2010), p. 1.

⁷⁹ For more information, see http://www.fairtrade.net/producer_certification_fund.html, accessed on 20 December 2012.

'Fairtrade and Rainforest Alliance accreditations are very costly. Complying with the standards is not difficult and causes only small additional costs for labour, and slightly weaker yields due to lower fertilizer use. The accreditation procedure, however, requires that auditors need to be invited from abroad at the full expense of our company. This causes high fixed costs, especially for new entrants in private standards.

For Fairtrade, even all entities of the value chain need to be certified: Producer, trader and buyer. Therefore, due to a lack of certified buyers so far, our company could only employ Fairtrade certification in UK, Netherlands, Japan and Germany.

We consider Fairtrade and Rainforest Alliance an asset which slightly improves profits. However, demand seems to be stagnating while supply of accredited teas is increasing – thus, we expect falling prices.

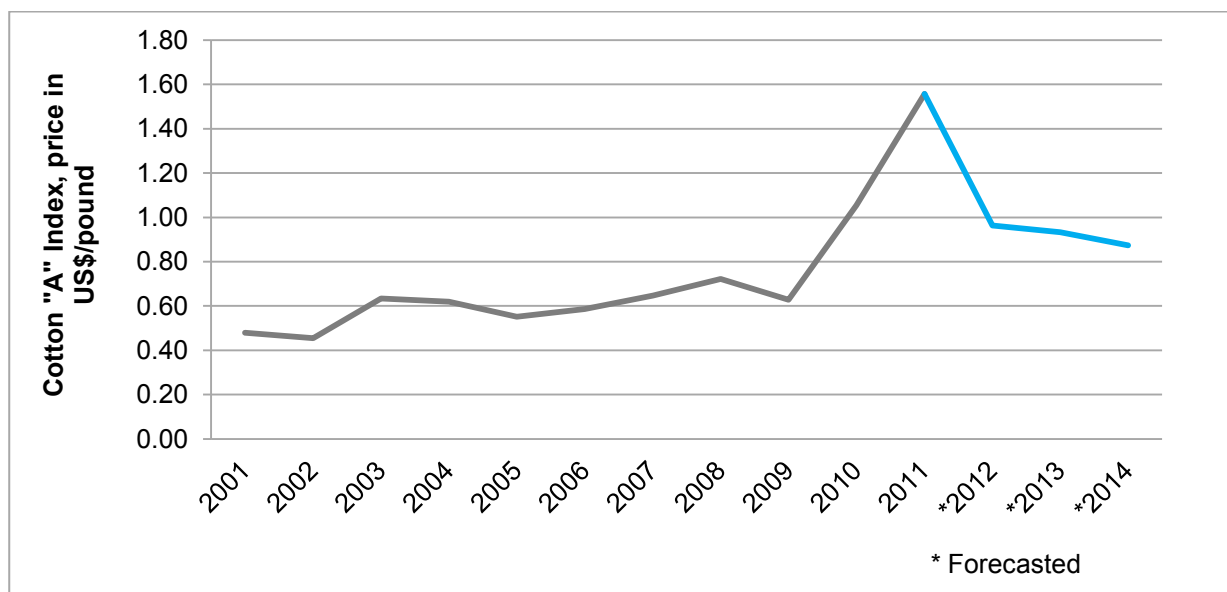
But there is also a benefit for our employees, of course.'

A producer of tea exporting to EU, North America, Japan and UAE (ITC survey on NTMs).

2.5.3. Cotton

Cotton is another traditional export cash crop of Malawi. Production and exports have generally increased over the last decade, but remain sensitive to international cotton price fluctuations.⁸⁰ While only about 3% of smallholders produce cotton, a cotton ginning industry adds value. The cotton ginners produce cotton lint and cotton seed from raw cotton, and are the exporters of the products. Cotton seed is processed to animal feed and is used domestically (40%) or exported within the region (60%). Cotton lint is mostly exported, due to a lack of a local spinning industry that could produce yarn for textiles. There is only one spinning company in Malawi.⁸¹ Cotton ginning is dominated by a few large firms, mostly subsidiaries of major multinational enterprises.⁸² After years of low international cotton prices, recent years have seen significant price increases and the emergence of new ginning companies in Malawi (see figure 19). However, a continuation of the trend is viewed as unlikely and lower prices are forecasted.⁸³

Figure 19: World cotton prices, “A” Index and forecast, 2001-2014



Sources: Prices 2001-2011: National Cotton Council of America, data available at: <http://www.cotton.org/econ/prices/monthly.cfm>, 30.05.2012; Price forecast 2012-2014: Economist Intelligence Unit, World commodity forecasts, June 2012.

Note: The "A" Index is a proxy for the world price of cotton. It is an average of the cheapest five quotations from a selection of the principal upland cottons (currently 19) traded internationally.

Five exporting cotton ginners were interviewed face-to-face. Only one of them (20%) reported burdensome NTMs. The company representative exclusively referred to the issue of export licenses (see section 2.3.1) for which the exporter had to wait for about a month. In-depth interviews with the exporters and the Cotton Ginners Association revealed that the overriding concerns of the industry are the market powers of multinational buyers in Europe and the United States. These major enterprises dominate the cotton market and have a large influence on prices and standards. Through direct exports to emerging markets, such as China, apparently price-markups can be increased by more than 30% as compared to multinational buyers.⁸⁴ Exports to China have only recently emerged, increasing from zero in 2008 to about US\$ 7 million in 2009, but dropping to about US\$ 1.1 million in 2010.

⁸⁰ WTO, Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 40; Information from stakeholder interview at Cotton Ginners Association of Malawi.

⁸¹ Information from stakeholder interview at Cotton Ginners Association of Malawi.

⁸² WTO, Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 44.

⁸³ Economist Intelligence Unit (January 2012), p. 39.

⁸⁴ Information from stakeholder interview at the Cotton Ginners Association of Malawi.

The fact that cotton exporters are barely affected by NTMs may well be a mirror of the market structure with multinational buyers taking care of transport and most export formalities.⁸⁵ The large buyers deal with any obstacles to trade, but impose low prices about which the cotton ginners heavily complained.⁸⁶ A cost-benefit analysis of whether to export directly or via multinationals is to be done at the company-level. However, while maintaining a competitive approach in production, increasing cooperation and speaking with one voice on the export-side is promising. Consolidation aims at gaining better bargaining power over large international buyers. When exporting directly to emerging markets, without intermediaries, exporters should join forces in order to deal with NTMs and transport issues.

2.5.1. Pulses, other vegetables and oil seeds

Malawi's ASWAp defines pulses (peas and beans), oil seeds (soya beans and groundnuts) and horticultural products (e.g. birds-eye chillies or paprika) as target crops for diversification of the agricultural sector.⁸⁷ This targeting makes sense from the perspective that these food products both improve food security and can be exported in times of good harvests. Pulses are already grown by about 68% of smallholders (15% for other vegetables), yet only marketed to an extent of about 37%. Promoting such products can therefore build on a large existing base of growers and will benefit an equally large share of the population. While the actual growers tend to be smallholders, processing, packaging and exporting is dominated by larger firms. Nine exporters in this sub-sector were interviewed, with seven of them being classified as large companies.

Despite this prioritization of the products, exporters are among the most affected in terms of NTMs. Out of the companies interviewed face-to-face, 78% were facing burdensome NTMs when exporting these products. Impediments were encountered domestically and abroad. An 86% share of the affected companies had trouble with domestic NTMs, only 37% with partner countries' regulations. The NTMs described in the previous sections affect this sub-group of products in particular: Export licensing is the predominant domestic challenge (67% of companies affected) causing delays of between one and four weeks. Technical certification requirements demanded by importing partner countries are the second recurring issue (33% of companies affected). Certificates issued in Malawi are not accepted in developed economies and Asia due to the lack of accreditation of MBS. Exporters need to bear higher costs when reverting to accredited private-sector facilities, such as SGS. Apart from these previously discussed NTMs and related POs, one further company exporting pulses and chillies also perceived MRA customs and servicing fees as 'a significant amount' (11% of companies affected).

Looking at the export licensing scheme from the perspective of food security appears more reasonable for this product-group than for previously discussed non-food cash crops. However, if the licensing procedures only cause delays during times of non-restricted export quantities in years of good harvests, a suspension of the licensing could facilitate exports significantly. The expansion and upgrade of the services provided by MBS, as also discussed previously, remains the second big driver of export promotion in this sector.

2.6. Summary and policy options

2.6.1. Sector-wide issues and policy options

Agriculture is the central pillar of Malawi's economy, providing the livelihood for the vast majority of its people. Harvests depend on climatic factors, but have generally increased due to improved use of fertilizers. Agricultural exports grew rapidly between 2006 and 2009, but contracted in 2010. Exports are vulnerable to demand shocks, particularly due to a high share of tobacco in agricultural exports (70%). Cotton, tea and sugar are other traditional cash crops. Pulses, other vegetables like chillies, and oil seeds account for most of the remaining exports. Cereals are mostly imported, but also exported in years of good yields.

⁸⁵ *Ibid.*

⁸⁶ Information from stakeholder interview at the Cotton Ginners Association of Malawi and from face-to-face interviews in the NTM survey.

⁸⁷ WTO. Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 38.

Technical measures applied by partner countries represent obstacles to 31% of interviewed exporters of agricultural commodities. The products affected by such measures represent almost 90% of Malawi's exports. Technical measures have two components: the technical requirement itself (e.g. maximum residue limits of pesticides), and conformity assessment (e.g. certification) to provide proof of the compliance with the underlying requirement. In the case of Malawian agro-exporters, conformity assessment is regarded as the major obstacle in 82% of the technical measures cases. The recurring underlying impediment is the fact that MBS, as the national standards body and certification focal point, is not an internationally accredited facility. Accordingly, importing countries in North America, the EU and Asia do not recognize the technical certificates provided. Often, exporters need to revert to private sector certification facilities, which imply additional costs for them.

Exports to partner countries in SADC and COMESA are hardly affected by this issue due to recognition of MBS certificates in most cases. This is a positive sign for an improving regional integration and South-South trade. Nevertheless, the government should actively pursue the formalization of mutual recognition agreements and harmonization of standards with SADC and COMESA partners.

Access to developed countries, however, inevitably requires the accreditation of MBS according to ISO/IEC standards. MBS is now advancing towards this goal with the support of the EU. An ambitious four-year roadmap until 2016 for accreditation under various ISO standards needs MBS highest efforts and full government support.

However, to reap the benefit of MBS accreditation, it is crucial that the private sector develops the capacities to produce products at international standards. MBS is already active in training exporters on quality requirements and conformity assessment procedures. These trainings should be expanded and address SMEs more systematically.

It is important, however, that product quality and certification be demand-driven at a business-to-business level, and not regulated by domestic authorities. As also highlighted in Malawi's forthcoming National Export Strategy,⁸⁸ MBS should see its role as a trade facilitator providing high quality services to exporters, but not as a regulator of export quality standards. Imposing higher quality standards on companies exporting to markets where such demands do not exist will reduce their competitiveness in product pricing on these markets.

Following the same argument, exporters reported challenges with domestically mandated export inspections and certification requirements, as opposed to partner countries' technical measures or market demands. Delays of three days up to four weeks at MBS and DARTS Research Stations are recurring complaints. Export conformity assessment in addition to partner countries' requirements can be redundant. This is particularly the case if exporters need to obtain technical certificates from accredited private sector facilities to replace certificates from Malawian institutions, which are not recognized outside COMESA and SADC. Given its importance for export earnings, tobacco is a prominent example for such redundancies. Avoiding this duplication of conformity assessment will not only unburden exporting companies, but also open up capacities at MBS that struggles with the high demand for their services. If exporters still voluntarily seek testing services from MBS, they are free to do so under the Export Quality Certification Scheme.⁸⁹

Export licenses are required for a number of agricultural products. Food security is an important issue in Malawi. Export licenses on essential food commodities therefore have an understandable rationale. Nevertheless, they are also applied to mostly exported cash crops like tea and cotton. Exporters could generally obtain the export licenses from the MoIT and MoAFS, but with delays of between one week and two months. The main obstacle therefore lies in the delays to obtain licenses, not in a quantitative restrictiveness of the licensing itself.⁹⁰

The facilitation of licensing procedures is therefore essential. The case-by-case approach by MoAFS is a first source of delays. The evaluation criteria should be clearly defined and published to allow exporters to

⁸⁸ Government of Malawi, Ministry of Industry and Trade. Forthcoming in 2012/2013.

⁸⁹ Information from an interview at MBS.

⁹⁰ These conclusions hold for October 2009 – June 2011, which is the reference period of the survey.

anticipate approvals and plan business. MoAFS may also publish up-to-date information about the food security situation and respective licensing restrictions on its website. Ideally, in the medium-term, MoAFS should move away from case-by-case approvals and automatize the procedure. The second source of delays is the Minister's approval at MoIT. While technical staff handles applications for export licenses quickly, the naturally busy agenda and frequent absences of a Minister unnecessarily delay the issuing of the licenses. Permanently delegating approvals to technical officers can significantly reduce delays already in the short-term. The good practice in the tobacco sector, where TCC issues licenses within minutes, should be taken as an example.

In addition to obstacles during the actual licensing procedure, MRA commented that the paper-based licenses were easy to forge. Therefore, MRA needs to verify the authenticity of licenses with MoIT once a consignment reaches the border. An advance notification system, which would inform MRA about incoming licensed consignments, can avert further delays caused by this procedure.

Finally, in the longer-term, all procedures should be electronically integrated between MoIT, MoAFS and MRA/customs in a so-called 'Single Window'. The government of Malawi already pursues this goal and MoIT is planning to establish a concrete implementation timeline next year. MoIT acknowledges that this is a long-term project requiring major investments. Donors should support this project as a large step towards trade facilitation.

Exports may be quantitatively restricted in years of weaker harvests. However, at least a temporary suspension of the export licensing scheme should be considered in years of good agricultural yields in order to avoid any delays in procedures. The authorities acknowledge that the export licenses are instituted on a needs basis to a varying list of products to ensure food security, health and safety people, animals and plants. However, health and safety are ensured through export inspections and sanitary requirements in the importing countries. Therefore, the rationale for export licensing procedures on food products other than essential staple foods, and especially non-food commodities (tea and cotton), should be reassessed.

During the reference period of the survey, the exchange rate of the MK was practically fixed and highly overvalued against the US\$. This led to a severe shortage of foreign currency supplies, and a strict foreign exchange control system was in place. The resulting foreign exchange controls, applied to exports via the '60/40 rule' and to imports through bank authorisation requirements. The import authorization requirement was already abolished following the liberalization of the exchange rate regime in May 2012, eliminating major procedural obstacles especially for importers. The '60/40 rule' is currently being phased-out by RBM in 2012.

The valuation of the domestic currency is a macroeconomic issue and has effects beyond trade. The foreign exchange policy can therefore not be judged only from a trade-perspective. Looking at trade and the private sector perspective, however, the flexible exchange rate is a major improvement. The devaluation of the MK is likely to boost exports and increase foreign currency stocks.

2.6.2. Important sub-sectors and specific policy options

Tobacco:

The prospects of Malawi's crucial foreign exchange earning sector are in doubt over health concerns and anti-smoking legislation in the developed markets. With most of the large tobacco merchants in Malawi being subsidiaries of companies in the United Kingdom and United States, the industry in Malawi also depends on their fate. These large merchants tend to be well-connected to partners in developed countries and hardly face NTMs or other obstacles there. By contrast, exports to Egypt are often impeded. Several specific measures go beyond regular documentation and cause significant delays. Also, a lack of recognition of national certificates is an impediment in Egypt, in contrast to other COMESA partners where Malawian certificates are recognized. Given that Egypt is a large importer (17% of Malawi's tobacco exports), these difficulties should be addressed bilaterally, within the framework of COMESA, or at the WTO. Tobacco exporters are also affected by inspection and certification requirements mandated by Malawian authorities. While they aim at maintaining the good quality of the product, they were often perceived as redundant. Since partner countries already impose high technical standards that have to be met and certified by internationally accredited facilities, delays and fees for domestic certificates seem to

outweigh their benefits. The efficient administration of export licenses through technical staff at TCC, can serve as a good practice for MoIT and MoAFS to streamline their procedures.

Tea:

With long-established customer relations, especially in the United Kingdom and in Africa, the exporters easily deal with technical measures and certification. Yet, in smaller markets like Japan, United Arab Emirates and Sri Lanka, challenges do arise. Establishing good customer relations with importing companies can alleviate this. The cost of a public-sector intervention appears too large for the benefit of access to such small markets. Getting certified by private standards, such as Fairtrade and Rainforest Alliance in the sample of interviews, may offer opportunities to increase the price of exported tea to the benefit of producers. However, the high cost of certification procedures is a major burden for exporting companies. Given the cost of certification, the corporate gains may be low, but survey respondents acknowledged the benefit for workers and the environment. Domestically, export licensing procedures, as discussed above, delayed exports substantially. For a non-food cash crop such restrictions and administrative obstacles should be avoided.

Cotton:

Unpredictable delays of export licensing procedures can mean a major loss to the exporter when selling prices fluctuate quickly on the world market. Export licenses for a non-food product should therefore be abolished. In partner countries, exports of cotton are hardly affected by NTMs. This result may stem from the fact that many domestic ginners are subsidiaries of multinational firms, exporting in established frameworks to multinational buyers. However, only low prices can be gained via this avenue due to the low bargaining powers of Malawian sellers. Avoiding intermediaries to achieve more direct sales and higher prices is showing promise in emerging markets such as China or the Russian Federation. Exporters then need to deal with NTMs and other obstacles in these new markets. Cooperation of Malawian cotton exporters to jointly deal with these obstacles to trade is advisable. Also in established developed markets, speaking with one voice in negotiations can strengthen market powers over multinational enterprises and increase profits.

Pulses, other vegetables and oil seeds:

Diversifying into these products appears promising, considering their positive impact on food security and their export potential – as also acknowledged in the ASWAp by the Malawi government. Exporters in the sub-sector are particularly affected by delays caused by the export licensing scheme. As mentioned above, its suspension may be considered in years of good harvests to avoid unnecessary administrative burdens for exporters. Certification requirements by partner countries and the lack of accredited domestic testing facilities are the second major impediment to exports. Given the prioritization and export potential of these products, respective certification requirements by large markets in Asia and Europe can be one of the priorities for international accreditation of MBS.

3. Manufacturing

In this chapter, NTMs and POs affecting the manufacturing sector will be addressed. While the previously discussed agricultural sector is a net-exporter, manufactured goods are imported to a large extent. The first section of this chapter will introduce the most important goods, both on the import-side with their importance to the value chain and to the small export-sector. Imported and exported manufactured products are even more diverse than in the agricultural sector. However, problems faced are similar across products and will therefore be treated jointly in this chapter.

Reflecting the import-oriented structure of the sector, obstacles to trade faced by importers are treated first. Section 3.2 presents the most common issues faced by importers. Subsequently, a third section briefly presents problems reported by exporters of manufactures.

The last section summarizes with an outlook on possible policy options. Data tables are found at the end of the section.

3.1. Essential business inputs and infant export industries

Total manufacturing imports have grown at an average annual rate of 16% since 2001. The resulting large trade deficit of US\$ 1,107 million (excluding fuels, 2010) has increased almost ten-fold since 2001. While the de-facto pegged and overvalued MK was one of the drivers of this development, it led to an acute shortage of foreign exchange and, consequently, to a stagnation of imports since 2008.^{91,92} With the liberalization of the exchange rate in May 2012, this situation is likely to improve.

Imports of manufactured products are vital for Malawi's economy. Malawi's import composition exhibits a focus on value addition and economic development, rather than mere consumption. The agricultural sector depends on crucial inputs such as fertilizers, other chemicals for crop protection, transport equipment and non-electrical machinery. According to their importance, no import duties are levied on many of these agricultural inputs. Imports in these sectors alone represent 56% of total manufacturing imports. Imports of chemicals have also been driven by the Farm Input Subsidy Programme (FISP), which provides smallholders with rebated fertilizers and other essential input stock. Accordingly, imports have grown annually at an average rate of 43% since the implementation of the FISP. Information and communications technology (ICT), i.e. computers, telecommunications equipment and consumer electronics, are an essential part of any business operation, and thus build an important basis for economic development in general. Selected essential products in these sectors can also be imported duty free. ICT and other electronic components account for another 11% of Malawi's manufacturing imports. Imports of fibres and textiles (2%) support the small domestic clothing industry. Cement, iron, steel and other basic manufactures (14%) are employed in construction (figure 20, left pane).

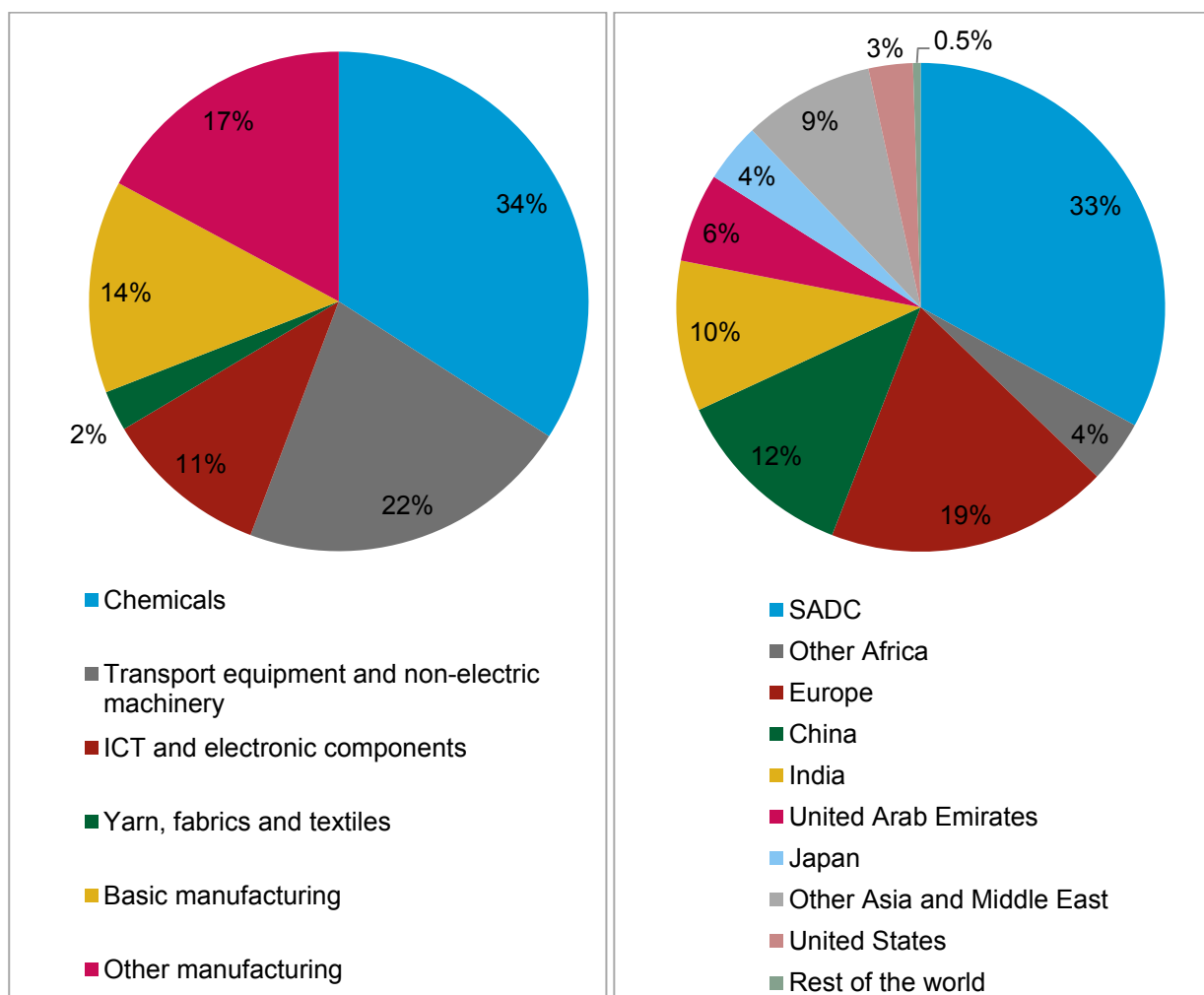
South Africa is by far the most important import partner (26% of total Malawian manufacturing imports); with geographically close SADC members accounting for another 7% of manufacturing imports. Regional trade is particularly important for landlocked Malawi, due both to preferential tariff rates under SADC (or COMESA) and to lower transport and transit costs. South Africa, as the most industrialized country in the region, provides large quantities across all sectors of manufacturing, but particularly chemicals, transport equipment, machinery, and basic manufactures. Other regional suppliers mostly provide metals, cement and other basic manufactures (see figure 20).

Given high shipping costs, imports from European countries and the United States tend to be high-value goods from the chemicals and machinery sectors. For similar reasons, imports from Japan are concentrated on transport vehicles. China is the predominant provider of ICT and other electronics. With the combined emergence of China as a supplier and the increased demand for ICT, imports from China grew at an annual average rate of 31% since 2001. Along with India and the United Arab Emirates, China is also a major supplier of chemicals (see figure 20).

Exports of manufactured goods only amounted to a value of US\$ 105 million in 2010 – compared to US\$ 841 million of agricultural exports in the same period. On average, the whole sector grew at about 6.5% per annum since 2001.

⁹¹ International Monetary Fund. International Financial Statistics (IFS). Available at <http://elibrary-data.imf.org/>, accessed on 20 December 2012.

⁹² WTO. Trade Policy Review: Malawi, Report by the Secretariat (2010), p. 2; and information from stakeholder interviews in Malawi.

Figure 20: Import composition and origins of manufactured goods, 2010

Source: ITC calculations based on Trade Map data.

Note: Other manufacturing includes wood and paper, leather, clothing and miscellaneous manufacturing.

Malawi's largest industrial export-sector, the textile and garments industry, has struggled with high input prices and strong international competition. While it still accounts for 24% of manufacturing exports (figure 21, left pane), the industry has declined at an annual average rate of 10% since its peak in 2004. Despite the negative trend, the sub-sector has been targeted for development by Malawi's authorities in order to benefit from PTAs with the United States in the framework of the African Growth and Opportunity Act (AGOA), SADC and South Africa.⁹³

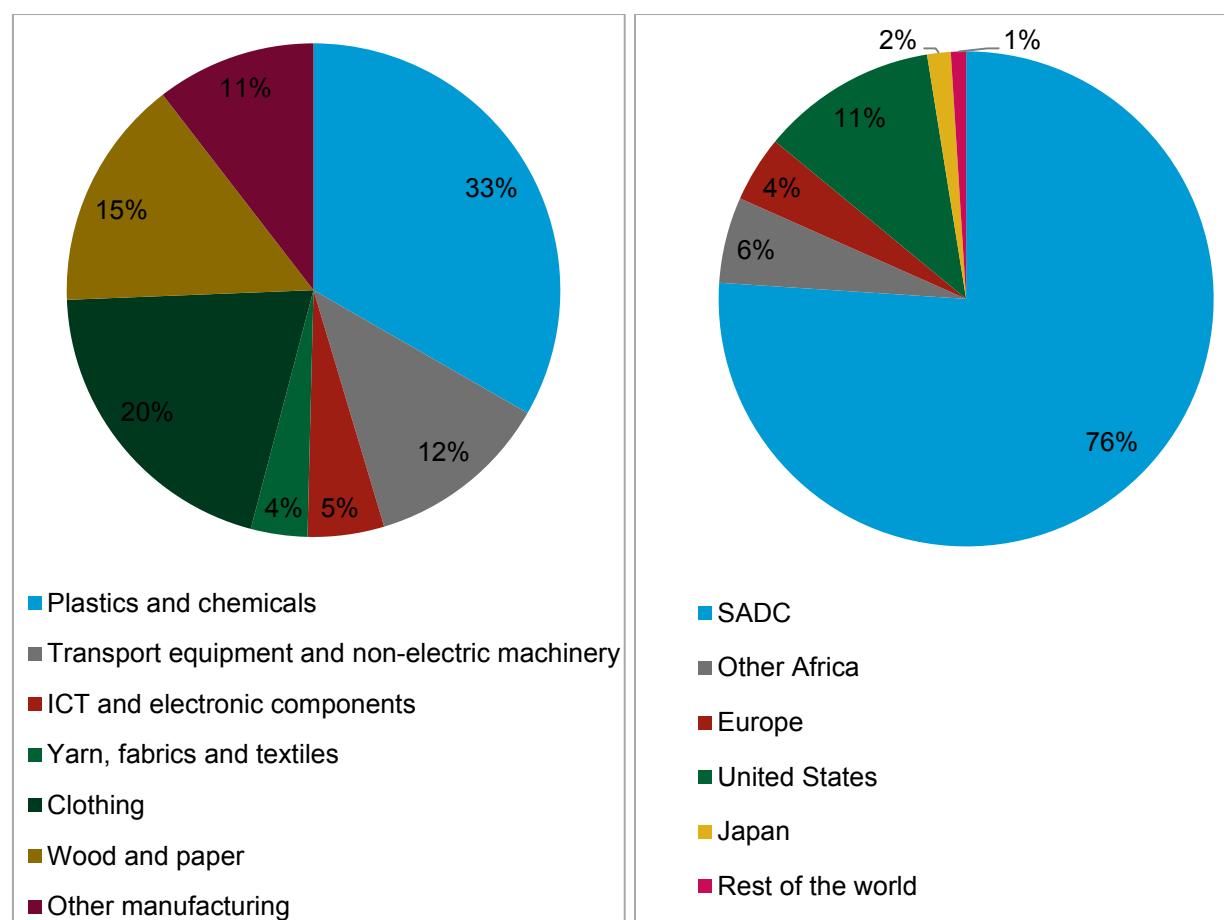
Processed plastics, particularly for packaging and household articles, are the fastest growing export-sector with average growth rates of 25% per annum since 2001. The subordinate sector of plastics and chemicals now represents 33% of Malawi's manufacturing exports. Exports of non-electrical machinery and transport equipment, as well as re-exports of foreign-produced engine vehicles account for another 12% of the sector's exports.⁹⁴ Exports of processed wood and some paper articles for packaging make up 15% of exports.

⁹³ MIPA, Priority Sectors for Investment, Manufacturing, online information, available at: http://www.malawi-invest.net/inves_opp_man.html, accessed on 20 December 2012; WTO. Trade Policy Review: Malawi, Report by Malawi (2010), p. 10.

⁹⁴ There is no domestic industry of new engine vehicles. However, re-exports of foreign manufactures can be confirmed from the survey data.

The vast majority of exports is destined for regional markets in the SADC region (76%, figure 21, right pane). Neighbouring Zambia and Mozambique account for the lion's share of manufacturing exports (59% of SADC exports), followed by South Africa and Zimbabwe as other major export destinations in SADC. Regional trade has also been the lone driver in export growth of manufactured products with average growth rates of 8% since 2001. Exports to non-regional markets are concentrated on the garments sector – particularly to the United States under AGOA preferences. However, exports to destinations outside Africa have stagnated over the last decade (0.3% annual average growth), or even declined as in the case of garment exports to the United States.

Figure 21: Export composition and destinations of manufactured goods, 2010



Source: ITC calculations based on Trade Map data.

Note: Other manufacturing includes leather, metal, basic manufacturing and miscellaneous manufacturing (except plastic articles under HS 3923 and HS 3924, which have been attributed to "Plastics and chemicals").

3.2. Importers' experiences with regulations in Malawi

When importing manufactured good, Malawian companies almost exclusively reported problems with domestic regulations and procedures. This is an expected outcome for two reasons: first, it is usually the importing country that applies NTMs. Second, importers in Malawi are more likely to be familiar with domestic obstacles than with export-related measures that may affect their exporting counterpart in the country of origin of the goods.

In the sample of companies interviewed face-to-face, 82% of importers experienced burdensome NTMs when importing manufactures. Domestic NTMs tend to affect imports irrespective of the country of origin. Given the wide variety of manufactured products, the survey could not capture all products at a very low level of product disaggregation, yet 27% of products at the HS 6-digit level were affected by domestic NTMs.

The following two sub-sections look at the main impediments faced by importing companies.

3.2.1. Import Quality Monitoring Scheme (IQMS) – inspections and fees

One third of the interviewed manufacturing importers named IQMS as a burdensome measure. MBS established IQMS in 1993 in order to ensure human, animal and plant health, and environmental protection. The reports of importing companies referred to a wide range of products, including fertilizers, other farm input chemicals, plastics, textiles and transport equipment.

The survey reports reflect three components of IQMS: pre-shipment inspections of product samples, inspections of final consignments, and fees paid to MBS (pre-shipment inspection, conformity assessment and charges/taxes, respectively, see table 17). The importers pointed out three main concerns with IQMS:

First, the inspections of pre-shipment samples and final consignments entailed delays that varied strongly across products – mostly ranging between a few days and four weeks, but up to several months in exceptional cases. In an additional interview, MBS remarked that the needed tests for the respective products make some of the time spent technically inevitable. For example, microbiological tests take more than seven days and testing of cement requires about one month. However, MBS admitted that resource constraints and the lack of modern equipment caused delays.

Second, the amount of fees was felt to be significant, yet never prohibitive. The IQMS fee consists of several fixed and variable cost components – including a product-specific testing fee, a variable inspection fee of 0.65% of the free on board import value, and a fixed reporting fee. MBS highlighted that the fees are largely set on a cost-recovery basis. Alongside the IQMS fee, MBS charges a Quality Development Cess to finance standard development activities of the Bureau.

Third, importers regarded some IQMS controls as redundant. Importers felt that inspections of samples before the shipment and inspections of the actual consignment were a double-burden. MBS responded that it does take into account the import history of companies. If the trading companies and the respective product have a positive track record, no pre-shipment inspection is required and the inspection of a sample of the final consignment is performed while the rest of the consignment is already allowed to enter the market. By contrast, without such a positive track record, pre-shipment inspection is required and the final consignment is detained until an inspection clears it.

'MBS does not recognise certification from other accredited institutions and insists on pre-shipment inspection, main inspection, IQMS fee and Quality Development Cess.'

[An importer of fertilizers \(ITC survey on NTMs in Malawi\)](#)

Companies also lamented that their imported products had to undergo inspection and that they were charged IQMS fees, despite providing certification from institutions in developed countries or the SADC/COMESA regions. MBS acknowledges that mutual recognition of certificates applies for SADC and COMESA. However, MBS points out that product quality can change during transport, for example on road transport from South Africa, and that some products require inspection at entry into Malawi.

3.2.2. Foreign exchange controls – import authorization

While the MK was practically fixed to the US\$ from 2006 to 2012, the resulting real effective overvaluation of the currency required foreign exchange controls to deal with the diminishing supply of foreign currency.⁹⁵ Since the exchange rate was liberalized in May 2012, the restrictions were removed. In August 2012, additional inquiries to companies confirmed that import procedures run smoothly now. Nevertheless, the following briefly summarizes the issue that was the most frequently reported obstacle during the survey reference period.

⁹⁵ IMF Executive Board Concludes 2009 Article IV Consultation with Malawi, Public Information Notice (PIN) No. 10/38, March 16, 2010. Available at: <http://www.imf.org/external/np/sec/pn/2010/pn1038.htm>, accessed on 20 December 2012.

RBM had implemented a two-sided system of exchange controls, both on exports and imports. When obtaining export revenue in foreign currency, 40% of the company's revenue had to be converted into MK at the official exchange rate ('60/40 rule', see also section 2.3.3). For import operations, the lack of foreign currency stocks had become a major problem. With an import authorization requirement authorities tried to channel foreign currency outflows (i.e. imports of goods) towards 'essential' goods and restrict imports of 'non-essential' goods. For imports worth up to US\$ 50,000, authorized commercial banks could clear the transaction. However if this threshold was exceeded, RBM needed to give a special authorization.

When importing manufactured goods, 75% of interviewed companies encountered significant problems with the special import authorizations and foreign exchange allocations at RBM. Delays were extensive and unpredictable (see table 18). Authorizations from commercial banks for lower value import operations only took 1-3 days and were not seen as a significant obstacle.

Importers reported that RBM almost always approved the import operations and allocated the foreign currency. However, the companies pointed out that the main challenge were the delays (see table 19). First, the length of delays, ranging between two weeks and three months, were a major obstacle. The survey data shows no clear pattern whether delays for 'essential' goods were shorter than for 'non-essential' imports.

Second, the unpredictability of the delays obstructed business planning. The importers indicated that they could not anticipate the duration of the time needed – except for the rough expectation that larger value imports would take longer. In addition, foreign suppliers increasingly demanded advance payment as a reaction to the foreign currency shortage in Malawi. Obtaining authorization from RBM for advance payment transactions was particularly difficult.

'In almost all cases approval is given, however, it takes a lot of time - up to months. Especially if the import value of the consignment is high (more than US\$ 50,000), waiting times for RBM approval are long. Advance payments are particularly problematic and in a few cases even rejected.'

[An importer of fertilizers and other chemicals](#)

'A big problem is the insecurity of business planning, as it is not possible to anticipate whether foreign exchange approvals are given, and when.'

[An importer of plastic raw materials](#)

'Given the foreign exchange policy, suppliers demand advance payment. The respective advance payment approval from Reserve Bank takes about 21 days. After that, the actual foreign currency allocation takes between 2 weeks up to months. At some stage, the payment generally is realized, but the delays are a major obstacle.'

[An importer of consumer electronics
\(ITC survey on NTMs in Malawi\)](#)

3.3. Companies' experiences with regulations affecting exports

Twelve companies exporting manufactured products were interviewed face-to-face, capturing a total of 60 export flows by product and destination. Compared to this sample size, the number of reported NTM cases is low. The majority of cases referred to the '60/40 rule', which has been suspended following the liberalization of the exchange rate (see sections 2.3.3 and 3.2.2, table 21). Other than that, there remain three cases of burdensome NTMs in destination countries, another two domestic cases and four in transit countries (tables 20 and 21). These cases are briefly described in the following.

In partner countries, exporters reported one case of a prohibition of plastic feeding bottles for babies due to health reasons in Zimbabwe. In another case, the Zambian authorities delayed one month in issuing health certifications for medicaments. Furthermore, a garment exporter claimed that some of his products were stolen during inspections at South African ports.

When transiting through South Africa, inspections of the South Africa Revenue Authority took between one and up to 12 days. Exporters also stated that Mozambique officials arbitrarily charged fees for 'escorts' of cargo to the ports (see also section 1.5.2).

Domestic export-related measures referred to export inspections, in which exporters accused MRA officials of demanding bribes for the processing of cargo (tables 21-23).

3.4. Summary and policy options

Imports of manufactured products are essential for Malawi's economy, providing fertilizers, other farm chemicals, transport equipment, information and communication technology. With duty free imports of many products, and with the FISP, Malawi has taken important steps to ensure the availability of inputs for agriculture, industry and services.

The IQMS aims to guarantee the quality of imported products and ensure the safety of consumers, animals and plants. While the legitimacy and necessity of import controls are undisputable, importers encountered challenges at MBS with delays and duplicated inspections. Costs, on the other hand, were hardly seen as an obstacle. IQMS fees and Quality Development Cess are arguably low and at a cost-recovery basis for MBS. Fees should not increase beyond this level.

Delays are arguably inevitable to the extent that laboratory tests inherently take time. Investments in MBS for modern equipment and staff development may nevertheless reduce the times required for inspections. Beyond mere testing times, MBS should make efforts to streamline inspections and minimize administrative delays. At the same time, MBS should increase transparency on the expected time required for their tests. In the short term and as a first step, MBS may publish the minimum durations of tests for each product. This would already improve importers' anticipation and business planning. A second step would consist in communicating average and maximum delays of inspections, based on historic data. MBS recently started using an electronic system that tracks the progress of inspections. This system can provide the data for the estimation of average and maximum delays. In the medium- to long-term, MBS should also make the inspection tracking system accessible to its customers.

Importers pointed at a high number of conformity assessment procedures, including pre-shipment sample inspections and final consignment inspections by MBS, sometimes in addition to certification provided from partner countries. Redundancies of conformity assessment should be eliminated. This will both directly unburden importers, and alleviate strained capacities at MBS. Recognition of certification from SADC, COMESA and internationally accredited institutions should at least replace pre-shipment inspections at MBS, if not also final consignment inspections. MBS should systematically assess the differences between domestic standards and standards in other countries, especially SADC and other regional partners. Based on this assessment, MBS should evaluate an increased recognition of foreign certificates. Malawi's government should also actively pursue formal agreements on mutual recognition and harmonization of standards in SADC and COMESA.

If transport conditions may invalidate previous conformity assessment, the respective products, transport types and routes should be clearly defined and communicated to importers. In the case that a final inspection therefore remains mandatory, foreign certification and pre-shipment inspections should only be voluntary. If companies and products have a positive trading history, MBS already allows cargo to enter the market on a provisional basis, while inspections are performed on a sample. MBS should maintain and, if possible, extend this reasonable policy.

The fixed exchange rate regime applied between 2006 and May 2012 resulted in an effective overvaluation of the MK. Imports grew disproportionately, export competitiveness was reduced and the trade deficit became critical. With foreign currency stocks close to depletion, Malawi implemented import authorization requirements that surveyed importers identified as the predominant burden for their operations. Delays were substantial and unpredictable. In the survey, six out of eight specifically asked importers responded that they would prefer a flexible exchange rate, despite higher import prices, to the import authorization policy and currency shortage.

The foreign exchange regime is an economy-wide issue, across all sectors and beyond a mere trade-perspective. An argument against depreciation brought forward by Malawi's former government was the potential inflation of imported goods and its negative impact on the country's poor.⁹⁶ However, shortages of fuel and other essential imports due to the lack of foreign currency stocks showed that the fixed exchange rate was unsustainable.

In May 2012, the new government liberalized the exchange rate and abolished import authorizations. Subsequent additional inquiries to importers confirmed that delays no longer existed. Acknowledging that

⁹⁶ Economist Intelligence Unit (August 2011), p. 13.

other essential aspects play a role in the exchange rate policies, the NTM survey focuses on the trade-perspective and reflects the impact on the business sector. From this perspective, the flexible exchange rate is a major improvement and should be maintained.

Malawi's exports of manufactured goods are minor and are concentrated on regional markets in SADC. In these markets exporters hardly face burdensome NTMs. Exporters rather encounter infrastructural and procedural challenges in regional partner or transit countries, such as delays, arbitrary behaviour of officials or a lack of security of goods in South Africa and Mozambique. These issues can be addressed through the SADC, COMESA and EAC Non-Tariff Barrier Reporting, Monitoring and Eliminating Mechanism, which also includes procedural obstacles in its scope.⁹⁷

Table 17: Import of manufactured products: burdensome NTMs applied by Malawian authorities

Reported import products ^{a/}		Imports from the world		Number of reported NTM cases								
HS 2-digit product group	Product group description (abridged)	Product's import value in 2010, US\$ '000 ^{b/}	Share of product in the sector's import value ^{b/}	Technical regulations	Conformity assessment	Pre-shipment inspection and formalities	Charges, taxes and other para-tariff measures	Quantity control measures	Finance measures	Anti-competitive measures	Rules of origin	Sub-total
25	Salt, sulphur, earths and stone; plaster, lime and cement	62,444	3.93%		2			1	2			5
28	Inorganic chemicals, precious metal compound, isotopes	16,459	1.03%		2				4			6
29	Organic chemicals	9,769	0.61%		1	1	1		1			4
30	Pharmaceutical products	131,628	8.28%	1								1
31	Fertilizers	206,170	12.97%		3	3	7		7			20
32	Tanning, dyeing extracts, tannins, dyes, pigments etc.	9,439	0.59%				1		6			7
34	Soaps, lubricants, waxes, candles, modelling pastes	36,079	2.27%		1							1
36	Explosives, pyrotechnics, matches, pyrophorics, etc.	2,671	0.17%						1			1
38	Miscellaneous chemical products	23,291	1.46%		1				2			3
39	Plastics and articles thereof	81,870	5.15%				1		8			9
40	Rubber and articles thereof	33,546	2.11%						1			1
42	Articles of leather, animal gut, harness, travel goods	3,018	0.19%				1					1
48	Paper and paperboard, articles of pulp, paper and board	52,037	3.27%				1		4			5
49	Printed books, newspapers, pictures etc.	118,283	7.44%						1			1

⁹⁷ For more information, see <http://www.tradebarriers.org/>, accessed on 20 December 2012.

Table 17 (cont'd)

Reported import products ^{a/}		Imports from the world		Number of reported NTM cases								
HS 2-digit product group	Product group description (abridged)	Product's import value in 2010, US\$ '000 ^{b/}	Share of product in the sector's import value ^{b/}	Technical regulations	Conformity assessment	Pre-shipment inspection and formalities	Charges, taxes and other para-tariff measures	Quantity control measures	Finance measures	Anti-competitive measures	Rules of origin	Sub-total
52	Cotton	2,176	0.14%		1	1			6			8
55	Manmade staple fibres	10,475	0.66%						2			2
63	Other made textile articles, sets, worn clothing etc.	15,719	0.99%				1		4			5
69	Ceramic products	7,926	0.50%						1			1
70	Glass and glassware	8,288	0.52%						2			2
73	Articles of iron or steel	42,908	2.70%		1				1			2
76	Aluminium and articles thereof	6,988	0.44%						3			3
83	Miscellaneous articles of base metal	8,985	0.57%						2			2
84	Machinery, nuclear reactors, boilers, etc.	201,640	12.68%	1	2				14			17
85	Electrical, electronic equipment	144,314	9.08%		4				16	1		21
87	Vehicles other than railway, tramway	164,511	10.35%		10				12			22
90	Optical, photo, technical, medical, etc. apparatus	19,736	1.24%	1					2		1	4
94	Furniture, lighting, signs, prefabricated buildings	17,737	1.12%						1			1
Total		1,438,107	90.46%	3	28	5	13	1	103	1	1	155

Source: ITC Survey on NTMs in Malawi, 2010-2011.

^{a/} The surveyed companies provided information about imported products at the HS 6-digit level. For reasons of brevity, the data has been aggregated to the HS 2-digit level.

^{b/} The provided HS 2-digit import values and the total exclude minerals and arms. Value of total import of manufactured products in 2010 is US\$ 1,590,121,000.

Note on NTMs applied by partner and transit countries: No cases of burdensome NTMs were reported to be applied by exporting partner countries. Only four cases were registered in transit countries: two cases of transport taxes in Mozambique; and individual cases of pre-shipment inspections in South Africa and Zimbabwe.

Table 18: Import of manufactured products: POs and inefficient TBE at domestic institutions and in partner/transit countries

POs and inefficient TBE	Number of PO/TBE cases that occurred...						sub-total
	in Malawi (and agencies involved, if specified)		in partner countries		in transit countries		
D1. Delay in administrative procedures	100	RBM (82), MBS (9), MRA (6), DARTS, * (2)	1	South Africa	1	South Africa	102
C1. Inconsistent classification of products	10	MRA (10)					10
E1. Unusually high fees and charges	9	MBS (4), MRA (4), 'Ministry of Health and MRA'					9
H5. Lack of recognition, e.g. of national certificates	8	MBS (8)					8
E2. Informal payment, e.g. bribes	2	MRA, *			2	Mozambique (2)	4
F1. Limited/Inappropriate facilities	4	MBS (4)					4
H1. No advance binding ruling procedure	4	RBM (4)					4
A4. Large number of checks	3	MBS					3
B1. Information is not adequately published and disseminated	1	MRA					1
D2. Delay during transportation			1	South Africa			1
I1. Other obstacles	18	RBM (2), * (6)	2	China, South Africa			20
Total	159		4		3		166

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* Institution not specified.

Table 19: Imports of manufactured products: NTMs applied by Malawi and reasons making them burdensome

NTM chapter applied by Malawi	Number of NTM cases	Type of associated procedural obstacles	Number of associated procedural obstacle cases			Burdensome NTM requirements without associated POs
			in partner country	in home country	Sub-total of POs	
Technical regulations	3	D1. Delay in administrative procedures		3	3	
		B1. Information is not adequately published and disseminated		1	1	
		I1. Other obstacles		1	1	
Conformity assessment	28	C1. Inconsistent classification of products		10	10	
		D1. Delay in administrative procedures		9	9	
		E1. Unusually high fees and charges		4	4	
		A4. Large number of checks		3	3	
		<i>No PO, only NTM requirement itself imposes a burden</i>				3
Pre-shipment inspection and other formalities	5	F1. Limited/Inappropriate facilities		4	4	
		H5. Lack of recognition, e.g. of national certificates		4	4	
		D1. Delay in administrative procedures		1	1	
Charges, taxes and other para-tariff measures	13	H5. Lack of recognition, e.g. of national certificates		4	4	
		D1. Delay in administrative procedures		2	2	
		E1. Unusually high fees and charges		1	1	
		E2. Informal payment		1	1	
		I1. Other obstacles		1	1	
<i>No PO, only NTM requirement itself imposes a burden</i>				7		
Quantity control measures	1	E1. Unusually high fees and charges		1	1	
Finance measures	103	D1. Delay in administrative procedures		84	84	
		H1. No advance binding ruling procedure		4	4	
		E1. Unusually high fees and charges		3	3	
		E2. Informal payment		1	1	
		D2. Delay during transportation	1		1	
		I1. Other obstacles	2	15	17	
<i>No PO, only NTM requirement itself imposes a burden</i>				8		
Anti-competitive measures	1	<i>No PO, only NTM requirement itself imposes a burden</i>				1
Rules of origin	1	D1. Delay in administrative procedures		1	1	
Total			3	158	161	19

Source: ITC Survey on NTMs in Malawi, 2010-2011.

Table 20: Export of manufactured products: burdensome NTMs applied by partner or transit countries

Reported export products		Export to the world		Number of reported NTM cases					
HS product code (as reported)	Product code description (abridged)	Product's export value in 2010, US\$ '000	Share of product in the sector's export value*	Technical requirements	Conformity assessment	Pre-shipment inspection and formalities	Charges, taxes and other para-tariff measures	Sub-total	Country reported to apply burdensome NTMs (Number of cases, if more than one)
300450	Medicaments containing provitamins, vitamins, incl. natural concentrates and derivatives thereof used primarily as vitamins, put up in measured doses incl. those in the form of transdermal administration" or in forms or packings for retail sale"	0	0.00%		1			1	Zambia
392410	Tableware and kitchenware, of plastics	774	0.74%	1				1	Zimbabwe
621040	Men's or boys' garments of textile fabrics, rubberised or impregnated, coated, covered or laminated with plastics or other substances	0	0.00%		1	1		2	South Africa (transit country) (2)
621141	Women's or girls' tracksuits and other garments, n.e.s. of wool or fine animal hair (excl. knitted or crocheted)	0	0.00%			1		1	South Africa (transit country)
630533	Sacks and bags, for the packing of goods, of polyethylene or polypropylene strip or the like (excl. flexible intermediate bulk containers)	26	0.02%				2	2	Mozambique, Mozambique (transit country)
Total		800	0.76%	1	2	2	2	7	

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* Value of total export of manufactured products in 2010 is US\$ 105,303,000.

Table 21: Export of manufactured products: burdensome NTMs applied by Malawian authorities

Reported export products		Export to the world		Number of reported NTM cases		
HS product code (as reported)	Product code description (abridged)	Product's export value in 2010, US\$ '000	Share of product in the sector's export value*	Export inspection	Export revenue conversion requirement	Sub-total
392330	Carboys, bottles, flasks and similar articles for the conveyance or packaging of goods, of plastics	687	0.65%		1	1
392410	Tableware and kitchenware, of plastics	774	0.74%		1	1
392490	Household articles and toilet articles, of plastics	6,980	6.63%		1	1
481910	Cartons, boxes and cases, of corrugated paper or paperboard	1,096	1.04%		1	1
621040	Men's or boys' garments of textile fabrics, rubberised or impregnated, coated, covered or laminated with plastics or other substances	0	0.00%	1		1
853690	Electrical apparatus for switching electrical circuits, or for making connections to or in electrical circuits, for a voltage <= 1.000 V	1	0.00%	1		1
870332	Motor cars and other motor vehicles principally designed for the transport of persons, incl. station wagons and racing cars, with compression-ignition internal combustion piston engine diesel or semi-diesel engine" of a cylinder capacity > 1.500 cm ³ but <= 2.500 cm ³	179	0.17%		1	1
871620	Self-loading or self-unloading trailers and semi-trailers for agricultural purposes	60	0.06%		1	1
940370	Furniture of plastics	677	0.64%		1	1
Total		10,454	9.93%	2	7	9

Source: ITC Survey on NTMs in Malawi, 2010-2011.

* Value of total export of manufactured products in 2010 is US\$ 105,303,000.

Table 22: Export of manufactured products: POs at domestic institutions and in partner or transit countries

POs and inefficient TBE	Number of cases that occurred...					
	in Malawi (and agencies involved, if specified)		in partner countries		in transit countries	sub-total
D1. Delay in administrative procedures	2	RBM (2)	1	Zambia		3
B2. No due notice for changes in procedure			1	Mozambique	1 Mozambique	2
C2. Other inconsistent or arbitrary behaviour of officials	2	MRA (2)				2
E2. Informal payment, e.g. bribes			1	Mozambique	1 Mozambique	2
D2. Delay during transportation					1 South Africa	1
E1. Unusually high fees and charges			1	Zambia		1
I1. Other obstacles			1	South Africa	2 South Africa (2)	3
Total	4		5		5	14

Source: ITC Survey on NTMs in Malawi, 2010-2011.

Table 23: Exports of manufactured products: NTMs applied and reasons making them burdensome

NTM Chapter	Number of NTM cases	Type of associated procedural obstacles	Number of associated procedural obstacle cases				Burdensome NTM requirements without associated POs
			in partner country	in home country	in transit country	Sub-total of POs	
NTMs applied by partner countries							
Technical measures	1	<i>No PO, only NTM requirement itself imposes a burden</i>					1
Conformity assessment	1	D1. Delay in administrative procedures	1				
		E1. Unusually high fees and charges	1				
Pre-shipment inspection and other formalities	1	I1. Other obstacles	1				
Charges, taxes and other para-tariff measures	1	B2. No due notice for changes in procedure		1			
		E2. Informal payment		1			
Total	4		3	2	-	-	1
NTMs applied by Malawi							
Export inspection, certification and other technical specification	2	C2. Other inconsistent or arbitrary behaviour of officials		1			
		<i>No PO, only NTM requirement itself imposes a burden</i>					1
Export licences, quotas, prohibitions and other quantitative restrictions	1	C2. Other inconsistent or arbitrary behaviour of officials		1			
Export revenue conversion requirement	7	D1. Delay in administrative procedures		2			
		<i>No PO, only NTM requirement itself imposes a burden</i>					5
Total	10		-	4	-	-	6
NTMs applied by transit countries							
Conformity assessment	1	D2. Delay during transportation			1		
		I1. Other obstacles			1		
Pre-shipment inspection and other formalities	1	I1. Other obstacles			1		
Charges, taxes and other para-tariff measures	1	B2. No due notice for changes in procedure			1		
		E2. Informal payment			1		
Total	3		-	-	5	-	-

Source: ITC Survey on NTMs in Malawi, 2010-2011.

Chapter 4 Conclusions and policy options

The non-tariff measure survey in Malawi

Especially for developing and least-developed countries, non-tariff measures (NTMs) have become a major concern in international trade. While countries may apply NTMs for legitimate reasons, they can still have a trade-impeding effect. NTMs are complex and exist in a large variety across products and countries. The ITC survey in Malawi looks at the business perspective to increase the understanding of the effects of NTMs on the private sector. To get a broader grasp of how NTMs affect business activities, the survey also considers procedural obstacles (POs) and inefficiencies in the trade-related business environment (TBEs). The analysis of regulations and their respective implementation allows for more precise policy recommendations and government action.

The NTM survey in Malawi finds a high share of exporters and importers to be affected by obstacles to trade. Exporters of fresh food and raw agro-based products most frequently reported trade barriers. Technical requirements and conformity assessment procedures, especially applied by developed markets, were a key obstacle. However, a significant amount of reported NTMs and procedural obstacles were domestic. Barriers at home in Malawi reduce exporters' competitiveness against foreign firms facing lower export costs in their countries. Additional costs accruing from the import of inputs used for domestic production and subsequent export have the same effect. Therefore, tackling domestic costs and frictions play a crucial and feasible part in boosting Malawi's international competitiveness. Addressing trade policies with foreign partners tends to be a long-term process, but is also a key to success.

Public-private dialogue at stakeholder meeting

Working with national stakeholders is essential in identifying concrete and realistic policy options. For this reason, the detailed analysis of the survey data was complemented with information from additional interviews with Malawian experts from various institutions and associations. As a final step, ITC and MoIT organized a full-day stakeholder roundtable in Lilongwe, Malawi, on 11 October 2012. The goal of the meeting was to present and validate survey results, discuss the public sector's perspective, and identify policy recommendations. About 50 participants from the public and the private sectors attended the roundtable. For details on the agenda, please refer to appendix V.

The following presents concrete policy options for action at the national and international level, which were discussed at the stakeholder roundtable based on the survey analysis. For policy options specific to sectors and sub-sectors, please refer to the respective sections in chapter 3.

1. Reassess export licensing for non-essential foods and facilitate procedures

Export licenses are required for the majority of agricultural products. This includes essential staple foods, like maize and wheat, non-essential foods, like pulses and horticultural products, and non-food cash crops, like tea and cotton. A third of all agricultural exporters reported to face substantial and unpredictable delays, lasting between one week and two months, until obtaining licenses from MoIT and MoAFS. Since exporters were generally granted the requested license, the delays turned out to be the main obstacle, not the quantitative restrictiveness of the licensing scheme.

Fundamentally, MoAFS and MoIT therefore need to reassess the rationale for export licensing procedures on products other than essential staple foods. Applying export licenses to essential foods is reasonable due to food security considerations. Quantitative restrictions should be limited to these essential food commodities. Removing export licensing requirements for other products will also eliminate respective procedural delays. Qualitative concerns, especially the health and safety of humans, animals and plants, are addressed through export inspections or SPS requirements in the importing countries. Even for essential foods, the export licensing could be suspended temporarily in years of good harvests.

Irrespective of the products that are to require export licensing, procedures need to be facilitated. MoAFS scrutinises applications for agricultural exports on a case-by-case basis, which is the first cause of delays. The Ministry should clearly define and publish the evaluation criteria, including putting online up-to-date information on current quantitative licensing restrictions. Exporters would then be able to anticipate approvals and plan business. In the medium-term, however, MoAFS should automatize the procedure based on up-to-date data on food security. At MoIT, the Minister's approval is required for every export license. Permanently delegating approvals to technical officers can significantly reduce delays already in the short-term. The good practice in the tobacco sector, where no delays were reported to occur at TCC, should be taken as an example. Furthermore, at the border, MRA needs to check the authenticity of the paper-based export licenses by calling MoIT. Delays resulting from this procedure should be averted through a notification system informing MRA in advance about incoming assignments.

In the long term, major improvements in trade facilitation can be achieved through electronically integrating procedures of MoIT, MoAFS and MRA in a 'Single Window'. The government of Malawi pursues this goal and MoIT aims to establish an implementation timeline in 2013. MoIT acknowledges that this long-term project requires major investments and donors support.

2. Accredit MBS internationally to facilitate extra-regional trade and strengthen MBS training activities

Technical measures applied by partner countries negatively affect a third of the interviewed exporters. Technical measures have two components: the technical requirement itself and conformity assessment, like certification or inspection, to prove compliance with the underlying requirement. For Malawian exporters of all sectors, conformity assessment is regarded as the predominant obstacle in 81% of the cases of technical measures. The crucial bottleneck is that MBS, as the national standards body and certification focal point, is not an internationally accredited facility. This means that importing countries in North America, the EU and Asia do not recognize the technical certificates provided.

Access to developed countries inevitably requires the accreditation of MBS according to ISO standards. MBS is now advancing towards this goal with the support of the EU. An ambitious four-year roadmap until 2016 for accreditation under various ISO standards needs MBS highest efforts and full government support.

In order to benefit from MBS accreditation, the private sector needs to develop capacities to comply with international standards. MBS is already active in training exporters on quality requirements and conformity assessment procedures. These trainings should be expanded and address SMEs more systematically.

3. Reduce mandatory export inspections and let export quality be market-driven

Exporters encountered challenges with domestically mandated export inspections and certification requirements. Exporters felt that some of the procedures were redundant with partner countries' conformity assessment, especially if they had already obtained technical certificates from internationally accredited private sector facilities. The respective procedures at MBS and DARTS often delayed between three days and four weeks.

Avoiding such duplication of conformity assessment will unburden exporting companies and free capacities at MBS to cope with the high demand for their services. Exporters can still voluntarily seek testing services from MBS under the Export Quality Certification Scheme.

Product quality and certification should to be demand-driven at a business-to-business level. As Malawi's forthcoming National Export Strategy also highlights, the role of MBS should be trade facilitation through provision of services, and not the regulation of export quality standards. Mandated quality standards that exceed the demands of the destination market will reduce Malawian exporters' competitiveness in product pricing on these markets.

4. Streamline IQMS inspections and increase transparency for the private sector

IQMS has the legitimate aims to guarantee the quality of imported products and to ensure the safety of consumers, animals and plants. However, importers reported challenges with IQMS inspection procedures at MBS, which include pre-shipment sample inspections and final consignment inspections. First, either or both of these inspections were sometimes required in addition to certification already obtained from partner countries. Second, the time until obtaining import clearance was often regarded as unpredictable as it varied between days, weeks and sometimes months. IQMS fees, which MBS sets at a cost-recovery basis, were not seen as an obstacle.

A duplication of conformity assessment should be avoided in order to disburden importers and to spare MBS capacities. Recognising certification from SADC, COMESA and internationally accredited institutions may replace MBS pre-shipment inspections and possibly even final consignment inspections. MBS should systematically assess the differences between domestic and foreign technical requirements, in particular with regard to SADC and other regional partners. MBS may then evaluate increasing the recognition of foreign certificates. The government may also actively pursue formal mutual recognition agreements and harmonization of standards with SADC and COMESA partners.

As pointed out by MBS, transport can invalidate previously issued certificates from the exporting country. MBS should clearly define and communicate to importers the respective products, transport types and routes that are affected. If a final inspection thus remains mandatory, foreign certification and pre-shipment inspections should only be voluntary.

While laboratory tests inherently take a certain time, investing in modern equipment and staff development may still speed up processes. MBS also needs to streamline inspection procedures and minimize administrative delays. However, apart from the actual length of delays, importers lamented that the durations were unpredictable. To allow business planning, companies need increased transparency about expected testing delays.

As a first step, MBS may publish the minimum durations of tests for each product. As the next step, average and maximum delays of inspections should be communicated. MBS recently implemented a system that electronically tracks the progress of inspections. This system can provide the data for the estimation of average and maximum delays. In the medium- to long-term, MBS should also make the inspection tracking system accessible to its customers.

5. Maintain flexible exchange rate

The fixed exchange rate regime applied between 2006 and May 2012 resulted in an effective overvaluation of the MK. Imports grew disproportionately, export competitiveness was reduced and the trade deficit became critical. With increasing shortages of foreign currency, strict exchange controls were applied to exports via the '60/40 rule' and to imports through bank authorisation requirements.

Surveyed importers identified import authorizations as the main burden for their business. Delays were long and unpredictable. Six out of eight specifically asked importers answered that they would prefer a flexible exchange rate, despite higher import prices.

In May 2012, the new government liberalized the exchange rate and abolished import authorizations. Subsequent additional inquiries to importers confirmed that delays no longer existed. RBM currently phases-out the '60/40 rule' as well. The NTM survey focuses on the trade and reflects the impact on the business sector. From this perspective, while recognising that other aspects play a significant role, the flexible exchange rate is a major improvement and should be maintained.

6. Sub-sector conclusions

Tobacco exports to Egypt (17% of Malawi's tobacco exports) face various obstacles that should be addressed bilaterally or within the framework of COMESA. Domestic export inspection and certification aim at maintaining the good quality of the product, but were often perceived as redundant. Since partner countries already impose high technical standards that have to be met and certified by internationally accredited facilities, delays and fees for domestic certificates seem to outweigh their benefits.

Tea exporters require export licenses, despite the fact that tea is a non-food cash crop. Such restrictions and administrative obstacles should therefore be reconsidered. Smaller foreign markets, where exporters face difficulties, require private sector initiative in establishing good customer relations with importing companies. A trend of voluntary private standards, such as Fairtrade and Rainforest Alliance, may offer opportunities to increase the price of exported tea to the benefit of farmers and the environment.

Cotton exports suffer from unstable world market prices and low bargaining powers of Malawian sellers. When selling prices fluctuate, unpredictable delays of export licensing procedures can mean a major loss to the exporter. As a cash crop, licensing requirements for cotton should be abolished. Avoiding intermediaries to achieve more direct sales and higher prices is showing promise in emerging markets. Exporters then need to deal with NTMs and other obstacles in these new markets. Further association and cooperation of Malawian cotton exporters is advisable to jointly deal with these obstacles to trade. In established developed markets, cotton sellers should consolidate their negotiation capacities and speak with one voice to strengthen market powers over multinational enterprises and increase profits.

Pulses, other vegetables and oil seeds are food commodities that require export licenses. As mentioned above, its suspension may be considered in years of good harvests to avoid unnecessary administrative burdens for exporters. Given the prioritization and export potential of these products, respective certification requirements by large markets in Asia and Europe can be one of the priorities for international accreditation of MBS.

Outlook

The NTM survey delivered a detailed picture of the challenges encountered by Malawian exporters and importers. The public-private dialogue at the stakeholder roundtable led to concrete policy options. Moving forward on these options requires that ministries, public agencies and the private sector continue working together. Cooperation needs to be close, continuous and institutionalized in order to ensure that policy actions are well defined and their outcome regularly monitored and evaluated.

ITC has developed local capacities in survey implementation, which would facilitate the repetition of the project in the future. This would allow evaluating progress over time; identifying new challenges; and carrying out a similar examination at the regional level.

Appendix I Global methodology of the non-tariff measure surveys

Non-tariff measure surveys

From 2008 to 2010,⁹⁸ the International Trade Centre (ITC) completed large-scale company-level surveys on burdensome non-tariff measures and other barriers to trade (NTM surveys hereafter) in 10 developing and least-developed countries on all continents.⁹⁹ In 2011, the NTM surveys were launched in 10 countries, with more currently going in 2012. The main objective of the NTM survey is to capture how businesses perceive burdensome NTMs and other obstacles to trade at a most detailed level – by product and partner country.

All surveys are based on a global methodology consisting of a core part and a country-specific part. The core part of the NTM survey methodology, described in this appendix is identical in all survey countries, enabling cross-country analyses and comparison. The country-specific part allows flexibility in addressing the requirements and needs of each participating country. The country-specific aspects and the particularities of the survey implementation in Malawi are covered in chapter 2 of this report.

Scope and coverage of the non-tariff measure surveys

The objective of the NTM survey requires a representative sample allowing for the extrapolation of the survey result to the country level. To achieve this objective, the NTM survey covers at least 90% of the total export value of each participating country (excluding minerals and arms). The economy is divided into 13 sectors, and all sectors with more than a 2% share in total exports are included in the survey.

The NTM Survey sectors are defined as follows:

1. Fresh food and raw agro-based products
2. Processed food and agro-based products
3. Wood, wood products and paper
4. Yarn, fabrics and textiles
5. Chemicals
6. Leather
7. Metal and other basic manufacturing
8. Non-electric machinery
9. Computers, telecommunications; consumer electronics
10. Electronic components
11. Transport equipment
12. Clothing
13. Miscellaneous manufacturing

⁹⁸ The work started back in 2006, when the Secretary-General of UNCTAD (United Nations Conference on Trade and Development) established the Group of Eminent Persons on Non-Tariff Barriers (GNTB). The main purpose of GNTB is to discuss definition, classification, collection and quantification of non-tariff barriers – to identify data requirements, and consequently advance understanding of NTMs and their impact on trade. To carry out the technical work of the GNTB, a Multi-Agency Support Team (MAST) was also set up. Since then, the ITC is advancing the work on NTMs in three directions. First, ITC has contributed to the international classification of non-tariff measures (NTM classification) that was finalized in October 2009. Second, ITC undertakes NTM Surveys in developing countries using the NTM classification. Third, ITC, UNCTAD and the World Bank jointly collect and catalogue official regulations on NTMs applied by importing markets (developed and developing). This provides a complete picture of NTMs as official regulations serve as a baseline for the analysis, and the surveys identify the impact of the measures on enterprises, and consequently, on international trade.

⁹⁹ The first NTM surveys were carried out in cooperation with UNCTAD in 2008–2009 in Brazil, Chile, India, the Philippines, Thailand, Tunisia and Uganda. The pilot surveys provided a wealth of materials allowing to significantly improve both the NTM classification and the NTM survey methodology.

Companies trading arms and minerals are excluded. The export of minerals is generally not subject to trade barriers due to a high demand, and the specificities of trade undertaken by large multinational companies. The export of arms is out of the scope of ITC activities.

The NTM surveys are undertaken among companies exporting and importing goods. Companies trading services are excluded, as a survey on NTMs in services would require a different approach and methodology. Yet, the NTM Survey includes companies specialized in the export-import process and services, such as agents, brokers, forwarding companies (referred to as ‘trading agents’ for brevity). These companies can be viewed as service companies, as they provide trade logistics services. The answers provided by trading agents are in most cases analysed separately from the answers of the companies that export their own products.

The NTM surveys cover legally registered companies of all sizes and types of ownership. Depending on country size and geography, one to four geographic regions with high concentrations of economic activities (high number of firms) are included in the sample.

Two-step approach

The representatives of the surveyed companies, generally export/import specialists or senior-level managers, are asked to report trade-related problems experienced by their companies in the preceding year and representing a serious impediment for their operations. To identify companies that experience burdensome NTMs, the survey process consists of phone screens with all companies in the sample (step 1) and face-to-face interviews undertaken only with the companies that reported difficulties with NTMs during the phone screens (step 2).

Step 1: Phone screens

The first step includes short phone screen interviews. Phone screens consist of questions identifying the main sector of activity of the companies and the direction of trade (export or import). The respondents are then asked whether their companies have experienced burdensome NTMs. If a company does not report any issues with NTMs, the phone screen is terminated. Companies that report difficulties with NTMs are invited to participate in an in-depth face-to-face interview, and the time and place for this interview is scheduled before terminating phone screen.

Step 2: Face-to-face interviews

The second-step interviews are required to obtain all the details of burdensome NTMs and other obstacles at the product and partner country level. These interviews are conducted face-to-face due to the complexity of the issues related to NTMs. Face-to-face interactions with experienced interviewers helps to ensure that respondents correctly understand the purpose and the coverage of the survey, and accurately classify their responses in accordance with predefined categories.

The questionnaire used to structure face-to-face interviews consists of three main parts. The first part covers the characteristics of the companies: number of employees, turnover and share of exports in total sales, whether the company exports their own products or represents a trading agent providing export services to domestic producers.

The second part is dedicated to exporting and importing activities of the company, with all trade products and partner countries recorded. During this process, the interviewer also identifies all products affected by burdensome regulations and countries applying these regulations.

During the third part of the interview, each problem is recorded in detail. A trained interviewer helps respondents identify the relevant government-imposed regulations, affected products (6-digit level of the Harmonized System), the partner country exporting or importing these products, and the country applying the regulation (it can be partner, transit or home country).

Each burdensome measure (regulation) is classified according to the NTM classification, an international taxonomy of NTMs, consisting of over 200 specific measures grouped into 16 categories (see appendix II).

The NTM classification is the core of the survey, making it possible to apply a uniform and systematic approach to recording and analysing burdensome NTMs in countries with very idiosyncratic trade policies and approaches to NTMs.

The face-to-face questionnaire captures not only the type of burdensome NTMs, but also the nature of the problem (so called *procedural obstacles* explaining why measures represent an impediment), the place where each obstacle takes place, and the agencies involved, if any. For example an importing country can require the fumigation of containers (NTM applied by the partner country), but fumigation facilities are expensive in the exporting country, resulting in a significant increase in export costs for the company (POs located in the home country). The companies can also report generic problems not related to any regulation, but affecting their export or import, such as corruption and lack of export infrastructure. These issues are referred to as problems related to business environment (see appendix III).

Local survey company

Both phone screens and face-to-face interviews are carried out by a local partner selected through a competitive bidding procedure. The partner is most often a company specializing in surveys. Generally, the NTM surveys are undertaken in local languages. The phone screens are recorded either by a Computer Assisted Telephone Interview system, computer spreadsheets, or on paper. The face-to-face interviews are initially captured using paper-based interviewer-led questionnaires that are then digitalized by the partner company using a spreadsheet-based system developed by ITC.

Open-ended discussions

During the surveys of companies and preparation of the report, open-ended discussions are held with national experts and stakeholders, for example trade support institutions and sector/export associations. These discussions provide further insights, quality check and validation of the survey results. The participants review the main findings of the NTM survey and help to explain the reasons for the prevalence of the certain issues and their possible solutions.

The open-ended discussions are carried out by the survey company, a partner in another local organization or university, or by graduate students participating in the special fellowship organized in cooperation with Columbia University (United States).

Confidentiality

The NTM survey is confidential. Confidentiality of the data is paramount to ensure the greatest degree of participation, integrity and confidence in the quality of the data. The paper-based and electronically captured data is transmitted to ITC at the end of the survey.

Sampling technique

The selection of companies for the phone screen interviews of the NTM survey is based on the stratified random sampling. In a stratified random sample, all population units are first clustered into homogeneous groups ('strata'), according to some predefined characteristics, chosen to be related to the major variables being studied. In the case of the NTM surveys, companies are stratified by sector, as the type and incidence of NTMs are often product-specific. Then simple random samples are selected within each sector.

The NTM surveys aim to be representative at the country level. A sufficiently large number of enterprises should be interviewed within each export sector to ensure that the share of enterprises experiencing burdensome NTMs is estimated correctly and can be extrapolated to the entire sector. To achieve this

objective, a sample size for the phone screens with exporting companies is determined *independently for each export sector*.¹⁰⁰

For importing companies, the sample size is defined at the country level. The sample size for importing companies can be smaller than the sample size for exporters, mainly for two reasons. First, the interviewed exporting companies are often import intermediaries and provide reports on their experiences with NTMs as both exporters and importers. Second, problems experienced by importing companies are generally linked to domestic regulations required by their home country. Even with a small sample size for importing companies, the effort is made to obtain a representative sample by import sectors and the size of the companies.

Exporting companies have difficulties with both domestic regulations and regulations applied by partner countries that import their products. Although the sample size is not stratified by company export destinations, a large sample size permits a good selection of reports related to various export markets (regulations applied by partner countries). By design, large trading partner are mentioned more often during the survey, simply because it is more likely that the randomly selected company would be exporting to one of the major importing countries.

The sample size for face-to-face interviews depends on the results of the phone screen interviews.

Average sample size

Based on the results of the NTM surveys in 10 countries, the number of successfully completed phone screens can range from 150 to 1,000, with subsequent 150 to 300 face-to-face interviews with exporting and importing companies. The number of phone screens is mainly driven by the size and the structure of the economy, availability and quality of the business register and the response rate. The sample size for the face-to-face interviews depends on the number of affected companies and their willingness to participate in the face-to-face interviews.

Survey data analysis

The analysis of the survey data consists of constructing frequency and coverage statistics along several dimensions, including product and sector, NTMs and their main NTM categories (e.g. technical measures, quantity control measures), and various characteristics of the surveyed companies (e.g. size and degree of foreign ownership).

The frequency and coverage statistics are based on 'cases'. A case is the most disaggregated data unit of the survey. By construction, each company participating in a face-to-face interview reports at least one case of burdensome NTMs, and, if relevant, related procedural obstacles and problems with the business environment.

¹⁰⁰ The sample size depends on the number of exporting companies per sector and on the assumptions regarding the share of exporting companies that are affected by NTMs in the actual population of this sector. The calculation of a sample size will be based on the equation below (developed by Cochran, 1963) to yield a representative sample for proportions in large populations (based on the assumption of normal distribution).

$$n_o = \frac{t^2 * p(1-p)}{d^2}$$

Where

n_o : Sample size for large populations

t : t-value for selected margin of error (d). In the case of the NTM survey 95% confidence interval is accepted, so t-value is 1.96.

p : The estimated proportion of an attribute that is present in the population. In the case of the NTM survey, it is a proportion of companies that experience burdensome NTMs. As this proportion is not known prior to the survey, the most conservative estimate leading to a large sample size is employed, that is $p=0.5$.

d : Acceptable margin of error for the proportion being estimated. In other words, a margin of error that the researcher is willing to accept. In the case of NTM survey $d=0.1$.

Source: Cochran, W. G. 1963. *Sampling Techniques*, 2nd Ed., New York: John Wiley and Sons, Inc.

Each case of each company consists of one NTM (a government-mandated regulation, for example sanitary and phytosanitary [SPS] certificate), one product affected by this NTM, and partner country applying the reported NTM. For example, if there are three products affected by the very same NTM applied by the same partner country and reported by one company, the results would include three cases. If two different companies report the same problem, it would be counted as two cases.

The scenario where several partner countries apply the same type of measure is recorded as several cases. The details of each case (e.g. the name of the government regulations and its strictness) can vary as regulations mandated by different countries are likely to differ. However, if the home country of the interviewed companies applies an NTM to a product exported by a company to several countries, the scenario will be recorded as a single NTM case. Furthermore, when an interviewed company both exports and imports, and reports cases related to both activities, it is included in the analysis two times: once for the analysis of exports and once for the analysis of imports. The distinction is summarized in the table below.

Dimensions of an NTM case

Country applying the measure Dimensions	Home country (where survey is conducted)	Partner countries (where goods are exported to or imported from) and transit countries
Reporting company	X	X
Affected product (HS 6-digit code or national tariff line)	X	X
Applied NTM (measure-level code from the NTM classification)	X	X
Trade flow (export or import)	X	X
Partner country applying the measure		X

Cases of POs and problems with the business environment are counted in the same way as NTM cases. The statistics are provided separately from NTMs, even though in certain instances they are closely related. (For example, delays can be caused by the pre-shipment inspection requirements). As many of the POs and problems with the business environment are not product-specific, the statistics are constructed along two dimensions: type of obstacles and country where they occur, as well as agencies involved.

Enhancing local capacities

The NTM surveys enhance national capacities by transmitting skills and knowledge to a local partner company. ITC does not implement the surveys, but guides and supports a local survey company and experts in doing this.

Before the start of the NTM survey, the local partner company, including project managers and interviewers are fully trained on the different aspects of the NTMs, the international NTM classification, and the ITC NTM survey methodology. ITC representatives stay in the country for the launch of the survey and initial interviews, and remain in contact with the local partner during the entire duration of the survey, usually around six months, to ensure a high quality of survey implementation. ITC experts closely follow the work of the partner company, providing a regular feedback on the quality of the captured data (including classification of NTMs) and the general development of the survey, helping the local partner to overcome any possible problems.

Furthermore, ITC helps to construct a business register (list of exporting and importing companies with contact details) which remain at disposal of the survey company and national stakeholders. The business register is a critical part of any company-level survey, but unfortunately it is often unavailable, even in the advanced developing countries. ITC puts much time, effort and resources into constructing a national business register of exporting and importing companies. The initial information is obtained with the help of national authorities and other stakeholders (e.g. sectoral associations). In cases where it is not available from government sources or a sectoral association, ITC purchases information from third companies, and in certain cases digitalizes it from paper sources. The information from various sources is then processed and merged into a comprehensive list of exporting and importing companies.

Therefore, upon completion of the NTM survey, the local partner company is fully capable of independently implementing a follow-up survey or other company-level surveys, as it is equipped with the business register and trained on the survey, trade and NTM-related issues.

Caveats

The utmost effort is made to ensure the representativeness and the high quality of the survey results, yet several caveats must be kept in mind.

First, the NTM surveys generate *perception data*, as the respondents are asked to report burdensome regulations representing a *serious impediment* to their exports or imports. The respondents may have different scales for judging what constitutes an impediment. The differences may further intensify when the results of the surveys are compared across countries, stemming from cultural, political, social, economic and linguistic differences. Furthermore, some inconsistency may be possible among interviewers (e.g. related to matching reported measures against the codes of the NTM classification) due to the complex and idiosyncratic nature of NTMs.

Second, in many countries a systematic business register covering all sectors is not available or not complete. As a result, it may be difficult to ensure random sampling within each sector, and a sufficient rate of participation in smaller sectors. Whenever this is the case, the survey limitations are explicitly provided in the corresponding report.

Finally, certain NTM issues are not likely to be known by the exporting and importing companies. For example, exporters may not know the demand-side constraints behind the borders, e.g. 'Buy domestic' campaigns. Furthermore, the scope of the survey is limited to legally operating companies, and does not include unrecorded trade, e.g. shuttle traders.

After the non-tariff measure survey

The findings of each NTM survey are presented and discussed at a dissemination workshop. The workshop brings together government officials, experts, companies, donors, non-governmental organizations (NGOs) and academics. It fosters a dialogue on NTM issues and helps identify possible solutions to the problems experienced by exporting and importing companies.

The NTM survey results serve as a diagnostic tool for identifying and solving predominant problems. This can be realized at the national or international level. The survey findings can also serve as a basis for designing projects to address the problems identified and for supporting fundraising activities.

Appendix II Non-tariff measure classification

Importing countries are very idiosyncratic in the ways they apply non-tariff measures. This called for an international taxonomy of NTMs, which was prepared by a group of technical experts from eight international organizations, including the Food and Agriculture Organization, the International Monetary Fund, the International Trade Centre, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization, the World Bank and the World Trade Organization. It was finalized in November 2009 and is used to collect, classify, analyse and disseminate information on NTMs received from official sources, e.g. government regulations. For the purpose of the large-scale company surveys on NTMs, ITC uses a simplified version of this international classification.

The NTM classification for surveys differentiates measures according to 16 chapters (denoted by alphabetical letters, see figure below), each comprising sub-chapters (denoted by two letters) and the individual measures (denoted by two letters and a number). The following sketches the content of each of the 16 chapters.

Chapter A, on technical regulations, refers to product-related requirements. They are legally binding and set by the importing country. They define the product characteristics, technical specifications of a product or the production process and post-production treatment and comprise the applicable administrative provisions, with which compliance is mandatory. Technical requirements include sanitary and phytosanitary measures, which are generally implemented to protect human, animal and plant life and health.

Chapter B, on conformity assessment, refers to measures determining whether a product or a process complies with the technical requirements specified under chapter A. Conformity assessments include control, inspection and approval procedures – such as testing, inspection, certification and traceability – which confirm and control that a product fulfils the technical requirements and mandatory standards imposed by the importing country, for example to safeguard the health and safety of consumers.

Chapter C, on pre-shipment inspection and other formalities, refers to the practice of checking, consigning, monitoring and controlling the shipment of goods before or at entry into the destination country.

Chapter D, on charges, taxes and other para-tariff measures, refers to measures other than tariffs that increase the cost of imports in a similar manner, i.e. by a fixed percentage or by a fixed amount. They are also known as para-tariff measures. Customs surcharges and general sales taxes are examples.

Chapter E, on licences, quotas, prohibitions and other quantity control measures, includes measures that restrain the quantity of goods that can be imported, regardless of whether they come from different sources or from one specific supplier. These measures can take the form of restrictive licensing, fixing of a predetermined quota, or through prohibitions.

Chapter F, on finance measures, refers to measures that are intended to regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase import costs in the same manner as tariff measures.

Chapter G, on price control measures, includes measures implemented to control the prices of imported articles in order to: support the domestic price of certain products when the import price of these goods is lower; establish the domestic price of certain products because of price fluctuation in domestic markets, or price instability in a foreign market; and counteract the damage resulting from the occurrence of 'unfair' foreign trade practices.

Chapter H, on anti-competitive measures, refers to measures that are intended to grant exclusive or special preferences or privileges to one or more limited groups of economic operators.

Chapter I, on trade-related investment measures, refers to measures that restrict investment by requesting local content, or requesting that investment be related to export to balance imports.

The structure of the NTM classification

A to O. Import related measures

Measures imposed by the country importing the goods. From the perspective of an exporter, these are the measures applied by the destination country of your product. From the perspective of an importer, these are the measures applied by your own country on the goods that you import.

Technical measures	A. Technical requirements	
	B. Conformity assessment	
Non-technical measures	C. Pre-shipment inspection and other entry formalities	
	D. Charges, taxes and other para-tariff measures	
	E. Quantity control measures (e.g. licences, quotas, prohibitions)	
	F. Finance measures	
	G. Price control measures	
	H. Anti-competitive measures	L. Subsidies
	I. Trade-related investment measures	M. Government procurement restrictions
	J. Distribution restrictions	N. Intellectual property
	K. Restriction on post-sales services	O. Rules of origin and related certificate of origin

P. Export related measures

Measures imposed by the country exporting the goods. From the perspective of an exporter, these are the measures imposed by your own country on the goods you export from your country. From the perspective of an importer, these measures are imposed by the country of origin on the goods you import from this country.

Chapter J, on distribution restrictions, refers to restrictive measures related to the internal distribution of imported products.

Chapter K, on restrictions on post-sales services, refers to measures restricting the provision of post-sales services in the importing country by producers of exported goods.

Chapter L, on subsidies, includes measures related to financial contributions by a government or government body to a production structure, be it a particular industry or company, such as direct or potential transfer of funds (e.g. grants, loans, equity infusions), payments to a funding mechanism and income or price support.

Chapter M, on government procurement restrictions, refers to measures controlling the purchase of goods by government agencies, generally by preferring national providers.

Chapter N, on intellectual property, refers to measures related to intellectual property rights in trade. Intellectual property legislation covers patents, trademarks, industrial designs, lay-out designs of integrated circuits, copyright, geographical indications and trade secrets.

Chapter O, on rules of origin, covers laws, regulations and administrative determinations of general application applied by the governments of importing countries to determine the country of origin of goods.

Chapter P, on export-related measures, encompasses all measures that countries apply to their exports. It includes export taxes, export quotas or export prohibitions, among others.

Appendix III Procedural obstacles

List of procedural obstacles related to compliance with non-tariff measures and to inefficient business environment and infrastructure

A.	Administrative burdens	<p>A1. Large number of different documents <i>(please specify number of documents)</i></p> <p>A2. Documentation is difficult to fill out</p> <p>A3. Difficulties with translation of documents from or into other languages <i>(please specify language)</i></p> <p>A4. Large number of checks <i>(e.g. inspections, checkpoints, weigh bridges – please specify the number and type of the checks)</i></p> <p>A5. Numerous administrative windows/organizations involved <i>(please specify number / type of involved windows/organizations)</i></p>
B.	Information/transparency issues	<p>B1. Information is not adequately published and disseminated</p> <p>B2. No due notice for changes in procedure</p> <p>B3. Regulations change frequently</p> <p>B4. Requirements and processes differ from information published</p>
C.	Inconsistent or discriminatory behaviour of officials	<p>C1. Inconsistent classification of products</p> <p>C2. Inconsistent or arbitrary behaviour of officials</p>
D.	Time constraints	<p>D1. Delay in administrative procedures <i>(please specify number of days)</i></p> <p>D2. Delay during transportation <i>(please specify number of days)</i></p> <p>D3. Deadlines set for completion of requirements are too short <i>(please specify required time)</i></p>
E.	Payment	<p>E1. Unusually high fees and charges <i>(please specify amount)</i></p> <p>E2. Informal payment, e.g. bribes <i>(please specify amount)</i></p> <p>E3. Need to hire a local customs agent to get shipment unblocked</p>
F.	Infrastructural challenges	<p>F1. Limited/inappropriate facilities <i>(e.g. storage, cooling, testing, fumigation – please specify)</i></p> <p>F2. Inaccessible/limited transportation system <i>(e.g. poor roads, road blocks – please specify)</i></p> <p>F3. Technological constraints, e.g. information and communications technology <i>(please specify)</i></p>
G.	Security	<p>G1. Low security level for persons and goods</p>
H.	Legal constraints	<p>H1. No advance binding ruling procedure</p> <p>H2. No dispute settlement procedure</p> <p>H3. No recourse to independent appeal procedure</p> <p>H4. Poor intellectual property rights protection, e.g. breach of copyright, patents, trademarks, etc.</p> <p>H5. Lack of recognition, e.g. of national certificates</p>
I.	Other	<p>I1. Other obstacles <i>(please specify)</i></p>

Appendix IV Experts and stakeholders interviewed

Experts and stakeholders who participated in the open-end discussions on non-tariff measures and related obstacles

In addition to NTM survey interviews with companies, interviews with representatives of the following associations and institutions were undertaken by ITC in May and June 2011:

- Cotton Ginners Association
- Exporters Association of Malawi
- Malawi Bureau of Standards
- Malawi Confederation of Chambers of Commerce & Industry
- Malawi Export Promotion Council
- Malawi Garment and Textile Manufacturers Association
- Tea and Coffee Merchants Association of Malawi
- Tea Association of Malawi and Coffee Association of Malawi
- Tobacco Association of Malawi
- Smallholder Farmers Fertilizer Revolving Fund

Appendix V Agenda of stakeholder meeting

THURSDAY, 11 OCTOBER 2012, 9 A.M. – 5.30 P.M.

SUNBIRD LILONGWE, LILONGWE, MALAWI

STAKEHOLDER MEETING ON NON-TARIFF MEASURES IN MALAWI

The meeting will be facilitated by Mr. Wiskes Nkombezi, Ministry of Industry and Trade

Programme:

08:30 Registration

09:00 Welcome and opening remarks

Mr. S. Sentala, Director of Administration and Finance, Ministry of Industry and Trade
Ms. Ursula Hermelink, Market Analysis and Research, International Trade Centre (ITC)

SESSION I BACKGROUND AND OVERALL RESULTS

09:30 The ITC programme on non-tariff measures and its implementation in Malawi

Ms. Ursula Hermelink, ITC

Questions and Answers

10:15 Coffee break

10:30 General results of the survey: Trade barriers affecting Malawian exporters and importers

Mr. Christian Knebel, ITC

Questions and Answers / Open discussion

SESSION II NON-TARIFF MEASURES AFFECTING MALAWIAN EXPORTS

11:15 Perception of exporters on technical measures applied by partner countries and Malawi

Mr. Christian Knebel, ITC

Selected discussants followed by an open discussion

12:30 Lunch

14:00 Perception of exporters on export licensing in Malawi

Mr. Christian Knebel, ITC

Selected discussants

Open discussion

15:00 Coffee break

SESSION III NON-TARIFF MEASURES AFFECTING MALAWIAN IMPORTS

15:30 Import inspections and other challenges reported by importers

Mr. Christian Knebel, ITC

Selected discussants

Open discussion

16:30 Snapshot on the former foreign exchange restrictions

CONCLUSION AND FINAL RECOMMENDATIONS

17:00 Concluding remarks and final recommendations

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