Opening Statement

Review and Update of the Integrated Trade and Industrial Policy; and the Plant Protection Law - to be compatible with the WTO Law (Malawi)

Validation Workshop - September 19th and 20th, 2011

Ambassador and Head of Delegation of the European Union

Ambassador Alexander Baum

Principal Secretary,

Senior Government Officials,

Your Excellencies,

Honourable Members of Parliament,

Ladies and Gentleman;

It is an honour to address you today on the occasion of the opening of this workshop, which will hopefully mark a milestone in developing Malawi's Trade Policy.

Why is the discussion about a new trade policy so timely?

We are all acutely aware that the economy is currently in a very precarious situation mainly (but not only) due to lack of foreign exchange. What we see today is the compounded and simultaneous effect of structural imbalances, the collapse of the tobacco revenues and the reduced influx of balance of payment support in the form of budget support. Any economy in the world would get on it knees in such situation.

The reduction in tobacco earnings this year has obviously such a dramatic impact on the overall economy because of the enormous dependency on tobacco exports as the key source of foreign exchange. Last year tobacco accounted for roughly 60% of all exports. The reliance on one single commodity – and notably tobacco – as a forex earner has always been a risky business and most Malawians are very well aware of it.

I believe that this crisis is largely self inflicted. I do not wish to go into too many details on why tobacco revenues suddenly collapse while the world market price and the total traded quantities on the world market have not or why the international community is unable to provide budget support at this point. The most interesting dimension of the current crisis from a trade perspective is the structural causes. Why has the Malawian economy grown consistently faster than its exports? Why has the vision of turning the economy from a predominantly importing to a predominantly exporting one not materialised?

This is therefore an excellent time to reflect on the importance of the trade policy for Malawi; and one does not have to be an economic genius to conclude that what the country needs is a diversification of its export base as well as liberalisation of its trade regime. This should include not only a liberalisation of the exchange rate but also a thorough reflection on the reasons why Malawi has been slipping further and further backwards in recent surveys on the Business Investment Climate. (In the latest World Bank doing business ranking Malawi lost another place compared to 2010 and is now only ranked as No 133.)

The existing trade policy was adopted as far back as 1998 and – in the eyes of many – the document never really became the key reference point for trade policy in this country that it was supposed to be. An irrelevant trade policy is however as good as none.

It is therefore high time for Malawi to have a debate about a new trade policy that should – in our view – deal with some of the following questions:

- How can the country move to an exchange rate regime that more appropriately reflects market realities?
- How can Malawi diversify its export base?
- How should decisions on tariffs be taken that include not only considerations of revenue maximisation but also support proactively trade?
- How does Malawi want to deal with many existing restrictions to trade, starting from the requirement to apply for forex for any imports exceeding US$ 50,000 to various existing licensing systems and other non-tariff barriers that effectively stifle trade?
- How should Malawi set its priorities in terms of international trade negotiations? And, last but not least,
- What can Malawi do to halt and reverse the trend of slipping further and further backwards in attracting foreign investors – perhaps with the exception of investments in the mining sector which are a double edged sword as you know.

These questions are not easy to answer. What is needed is an open dialogue about these challenges and how the Government can best address them. We hope that today's workshop can be one of the fora for this discussion.

You are probably aware that the European Union has been arguing for quite a while that we would hope to see a stronger integration of the regional economies and a stronger integration of Malawi and other countries in the region into the global economy. Developing trade relations require careful analysis *(for example, where are your potentially competitive advantages and on what markets; in turn which* *imported products from which countries are competing with which local products etc),* a clear understanding and definition of the national trade interest and own negotiation capacity (should never be contracted out). My impression is that none of this is clear.

In our negotiations with ACP regions on economic partnership agreements but also within the WTO, we have generally observed a disappointing understanding of the dynamics of the world economy and trade issues in general. The EPAs are generally understood by ACP governments as a European problem not as opportunity for the ACP countries. If the EU wants EPAs, it has to do this and that and beyond this, there are more reasons not to enter into a trade partnership than in favour of it: for example the supply side constraints, the potential revenue losses, the competition from European imports, the insufficient aid from the EU, special provisions like MFN clause etc. The point is that ACP countries must see the need for increasing exports and the benefit of a trade partnership with the EU with or without more aid in order to negotiate a good deal.

As you know, in absence of a response from the ACP, the EU has moved ahead and is currently negotiating free trade agreements with essentially the rest of the world (except China and the US), which will eventually erode the advantages of the DFQF access to the EU markets by the ACP.

It is encouraging to take note that Malawi continues to pursue the current negotiation process for eventually signing of an Economic Partnership Agreement (or "EPA") with the EU. The objective of the EPAs is to introduce a comprehensive trade and development partnership which is fully compatible with the rules of the World Trade Organization.

On "trade in goods" the EU offers duty free quota free access to the EU markets with improved rules of origins in exchange for a limited degree of liberalization of imports from the EU - gradual and with many safeguards in order to allow for protection of growing industries should the need arise. But EPAs could offer much more in enhancing the competitiveness of industries, increase investment, diversify trade into services etc.

A lot can however be done even without international trade agreements. The EU is supporting trade both through regional and bilateral national funding. It is in the context of the regional programme "*Technical Assistance to the Integration to the Multilateral Trading System and Support to the Integrated Framework*" that also the consultant present here today have been funded, with the objectives (1) to review and update the Integrated Trade and Industry Policy to be in line with Malawi's WTO obligations, and (2) to review the Plant Protection Act (1954).

If you do not mind hearing some figures I dare to say that the budgets with which the EU is supporting these regional initiatives are substantial: of the total allocation to ESA of EUR 645 million 85% are allocated for regional economic integration including trade and EPA support. Moreover, of the total of EUR 116 million in grants allocated to SADC not less than 80% is for regional economic integration, including a contribution to the EU package on Aid for Trade. Thirdly, the European

Union is supporting several initiatives financed from all-ACP funds, such as the EUR 50 million TradeCom Programme.

In addition to these regional initiatives we are also supporting the sector with specific funding under the bilateral National Indicative Programme with Malawi. In April this year we signed a EUR 12 million Trade and Investment Programme, which specifically aims at accelerating export growth and promoting the diversification of the Malawi's economic base. The Programme has three main areas of intervention:

- Development of a robust standardization, quality assurance, accreditation and metrology (SQAM) infrastructure in Malawi
- Development of Malawi's mineral sector and improved private sector investment in mining and
- Development of a sound, efficient and reliable Trade Statistics and Information System (TSIS), where we look forward to working with the National Statistical Office.

As you can see there is no shortage of efforts on our side to help Malawi to improve its position as an international trade partner. However, many of these investments may be in vain if they cannot build on a solid trade policy, which is what makes this such an important event at a very critical junction for the country.

Ladies and Gentlemen, allow me to therefore take this opportunity to commend the Government of Malawi, the private sector and all national stakeholders, on this endeavour to examine and debate the comprehensive findings of the expert during this validation workshop with the aim of adopting YOUR NATIONAL Trade and Industry Policy and Plant Protection Law.

With these remarks, I look forward to very constructive and fruitful discussions over the next few days, and beyond.

Thank you.

Zikomo kwambiri.