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NAME OF CANDIDATE: MAXWELL YOUNG MKUMBA

STUDENT NUMBER: MKMMAX001

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THE CASE OF TIMBER PRODUCTS**

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ABSTRACT

The study examines the export tax as a trade policy tool in Malawi, with a specific focus on the timber industry. This study was motivated by the sudden imposition of an export tax on timber trade by the Malawi Government in 2011, as a reactive policy to an upsurge in timber exports from Malawi. The objective of the study was, therefore, to investigate why the Malawi Government decided to impose the export tax, and whether this trade policy tool has been effective in meeting the objectives. In this regard, the study was done in a broad manner to cover both the theoretical aspects of the export tax, as a trade policy tool, and the practical realities about the Malawi Government's management of the forestry sector and the timber trading in an environment where the Government decided to join the global rules-based trading system. The study used a descriptive explanatory design, employing qualitative methods that involved the use of questionnaires and analysis of the existing literature. The results revealed that an export tax is a duty that is applied on products before they are exported in order to achieve certain objectives, which include government revenue collection, domestic price stabilization, achieving food security, or promoting value addition, hence, industrial development. The review of the literature has demonstrated that care should be exercised when adopting this policy tool because export taxes can be trade-restricting and welfare diminishing on a country, or can constitute a "beggar-thy-neighbour" policy when not properly designed. It is in consideration of such consequences that it has now become fashionable for modern free trade agreements (FTAs) to include provisions on export taxes. For instance, the SADC Protocol on Trade includes Article 5 which prohibits Member States from applying any export duties on goods for export to other Member States. However, from the study, it has been established that if the export taxes are properly designed and implemented, they can boost Government revenue and catalyse industrial productivity. In this respect, evidence has shown that the Government imposed the export tax on timber to curb influx of foreign traders who have been buying the timber because it was cheaper than the timber found in the neighbouring countries. This was a reactionary use of export tax as a trade policy tool, rather than taking a proactive approach to ensure that the Government achieves the policy objectives. Thus, the available literature has shown that the Government could combine the various objectives for introducing the export tax on timber. In this regard, the efficacy of the export taxes depends on the creation of proper linkages with other policy

initiatives, such as existence of local knowledge, technological development and processing capacity for increased local production to meet high standards of the international market. Thus, while the Malawi Government can maintain the export tax on timber, it should be done with a very clear objectives and timeframe for using it as a trade policy tool. The Government can combine a number of policy objectives, such as, revenue generation and use the proceeds to undertake re-forestation programme and protect the environment while, at the same time, encouraging value addition or encouraging global value chains. Such initiatives have the capacity to generate economic gains because as the country builds the productive capacities, there is employment creation and use of other domestically produced inputs or raw materials. In this respect, it is important that the pricing of timber or forestry products should also reflect the appropriate or true economic rent, which should be levied from the use of the natural resource. The study has, therefore, revealed that the Malawi Government should review the method of collecting the export taxes to ensure maximum compliance, curb corruption, and avoid loss of foreign exchange earnings. The Government should devise other ways of collecting the export taxes than at the points of exit or the designated borders. One recommendation is for the Government to place the Malawi Revenue Authority officials at the sites where the timber is harvested, and make such sites as the collection points. More importantly, the study recommends that Government should conduct civic education campaigns targeted towards timber producers and exporters, highlighting the benefits of the export taxes to avoid illegal trade and corruption. The study has further revealed that it is possible for the Government to increase the stumpage fee to the levels that would be comparable to the stumpage fees in other countries such as Kenya, South Africa, and Tanzania.

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ABBREVIATIONS AND ACRONYMS

ASCM	Agreement on Subsidies and Countervailing Measures
BOP	Balance of Payment
COMESA	Common Market Eastern and Southern Africa
DFID	Department for International Development
EAC	East African Community
EU	European Union
EPA	Economic Partnership Agreement
EPD	Economic Planning and Development
EPZs	Export Processing Zones
FTA	Free Trade Area
FAO	Food and Agriculture Organisation
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
LDCs	Least Developed Countries
MDAs	Ministries, Departments and Agencies

MRA	Malawi Revenue Authority
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
NGOs	Non-Governmental Organisations
NFP	National Forestry Plan
NSO	National Statistics Office
NTBs	Non-Tariff Barriers
NTFP	National Timber Forest Product
NWGTP	National Working Group on Trade Policy
RECs	Regional Economic Communities
RoO	Rules of Origin
RTAs	Regional Trading Arrangements
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SMFEs	Small Medium Forest Enterprises
SPS	Sanitary and Phyto-Sanitary

TBTs	Technical Barriers to Trade
TFTA	Tripartite Free Trade Area
TRALAC	Trade Law Centre
UNCTAD	United Nations Commission on Trade and Development
UNECA	United Nations Economic Commission for Africa
WTO	World Trade Organisation
WTR	World Trade Report

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CHAPTER ONE

INTRODUCTION

1.0 Chapter Overview

This chapter introduces the concept of an export tax as a trade policy tool. It provides an overview of Malawi's timber industry, its size and structure. This chapter also examines the trade policy options taken so far by the Malawi Government to mitigate the trade flow of timber products out of Malawi, which has caused high rapid deforestation of Malawian forests by timber traders and the compelling reasons for the study.

1.1 Introduction

The World Trade Organization (WTO) (1995) defined export taxes as “duties or tariffs placed on exports to achieve specific objectives. They are applied on products before they are exported to address certain specific issues such as widening the Government's revenue base, or as mechanisms for domestic price stabilization.” Generally defined, an export tax, in simple terms, is a levy which countries impose on exportable products before leaving the territory. It acts as a method of export restriction and it is often a preferred method of restricting exports among the various policy options available (Bonarriva et. al. 2009). Commodity dependent developing countries have, over the years, seen a decline in prices of some commodities mixed with high price volatility. This has presented significant challenges to these countries.

According to Piermartini (2004), in most cases, export restrictions have sometimes been suggested as a trade policy instrument to tackle these commodity issues, primarily because export restrictions can be used to improve the terms of trade, to smooth export earnings volatility, to foster diversification of the production structure, and as a means of income redistribution to the poor.

1.1.1 Understanding Export Taxes in the Global Trading System

It is important to highlight that before the negotiations under the Uruguay Rounds of Agreements, there was a general understanding that most countries produce mainly to export. As Bouet and Laborde (2010) observed, that the nature of the world trading system is deeply mercantilist. Consequently, Governments formulate policies that are mainly aimed at increasing exports while, at the same time, decreasing imports. To achieve this, Governments normally try to use import taxes and export subsidies. Thus, the notion of export restrictions, which included imposition of export taxes, did not necessarily form part of the binding agreement under the negotiations, except for quantitative restrictions under the Article XI of the General Agreement on Tariff and Trade (GATT) framework. However, the European Union (EU) brought to the fore the issue of export restrictions for review in the subsequent meetings of the Doha Round of Negotiations (2002). As Solleder (2013) noted, the EU made a proposal, at the level of the WTO, calling for distinction between trade-distorting export taxes and legitimate export taxes, like those applied to address the Balance-of-Payment (BOP) challenges. This proposal came in the wake of increased use of export taxes as a trade policy tool. Evenett (2009) observed that by 2009 export taxes and restrictions emerged as ninth top category among state measures discriminating against foreign commercial interests. Consequently, an agreement was reached in the WTO that newly-acceded members should bind their export taxes in a manner similar to bindings on import tariffs.

1.1.2 Forms of Export Restrictions

Piermartini (2004) described various forms of export restriction to include export taxes, export bans, regulated exports and supervised exports. According to Piermartini, an export restriction can take different forms, the first being an export tax, which may be in the following types:

- An *ad valorem* tax;
- A percentage tax of the value of the product;
- A fixed amount to be paid per unit of a product; or
- A progressive tax characterized by a high tax rate when the price of the product is high and a lower tax rate when the price of the product is low.

He further described a second export restriction in terms of export bans. This form of export restriction has frequently been applied on live fishery products, wildlife, hides, and skins of certain endangered species, and is also applied to prevent exports of dangerous materials. Marks et. al. (1998) noted two main fundamental problems related to the use of this export restriction policy. The first was that it is not a long-term credible policy in that the effectiveness of an export ban is seriously curtailed by the anticipation of the ending of the ban. Second, it often leads to smuggling of goods in unauthorized trade channels.

The third export restriction described by Piermartini (2004) was regulated exports. These included quotas and licensing requirements. Quotas were defined as a maximum volume of exports allowed to be exported, while licensing requirements are meant to establish that a commodity can be exported only through approved exporters in possession of that license. Usually in this case the government will allocate export quotas to some registered exporters. In some cases, the system can be adopted to capture economic rents associated with a perceived position of market power in an exporting country (Piermartini, 2004). He further explained, and also as observed in the WTO (2011) report, that this introduces a strong discretionary element in the trading system, through quota allocation arrangements and may encourage the formation of powerful export cartels and rent-seeking activities. The last export restriction measure explained by Piermartini (2004) was supervised exports. This is a mixed form of control used on some commodities to ensure an adequate domestic supply of "essential goods" at reasonable prices.

Of the export restriction options outlined above, the South Centre (2006) argued that, generally, export taxes are the preferred policy instrument to implement. Export taxes are believed to be a viable policy instrument yielding the government revenue, while being transparent and simple to administer (Piermartini, 2004). Solleder (2013) noted from the World Trade Report (2010) that approximately one third of all export taxes are imposed on natural resources, which include timber products. However, different countries have various policy objectives for imposing export taxes. These reasons were broadly outlined in the COMESA (2014) Tripartite Report, and they may include the following:

- Revenue Generation and Income Redistribution

The imposition of export taxes has often been driven by the need to collect revenues used for development purposes. According to Raja (2006), stabilization of domestic prices, especially in times of high inflation, can be achieved through the generation of revenues and income redistribution by export taxes. Moreover, an export tax has the further benefit of raising foreign exchange, although this is not guaranteed with government revenues derived from an *ad valorem* export tax, as they can fluctuate in line with export values (Bonarriva et. al. 2009).

- Diversification of Products

Most countries involved in the export of raw materials do not have robust manufacturing sectors and rarely engage in value addition. Domestic taxes on primary commodities normally act as an indirect subsidy, since the domestic price of the primary commodities reduces in response to the tax, thereby guaranteeing supply to the manufacturing sector at prices lower than the world price. Furthermore, employment creation is also a benefit of this process to the domestic population.

- Food Security

The objective of imposing taxes on exports, as Josling (2014) observed, can sometimes be as a direct response to instability in the markets for basic food commodities, leading to food insecurity. A country will apply an export tax to its agricultural products, thereby ensuring that there is adequate supply of key food stuffs, such as staples, for the domestic population. In these instances, the tax is imposed to address a specific food crisis, and is not a long term policy.

- Terms of Trade

Piermartini (2004) argued that when a country possesses a degree of monopolistic power in the international market for a particular commodity, an export tax levied on the good can, in fact, improve the exporting country's terms of trade. However, if the tax imposing country does enjoy a monopolistic position in the international market, then it provides an incentive for other countries to develop substitute goods or technologies. Hence, as highlighted in a Paper by the

Third World Network, an export tax imposed for this reason may not ultimately benefit the tax imposing country.

- Tariff Offsetting

Export taxes can be used as an offsetting tool in response to tariff escalation. Hohmann (2008) observed that tariff escalation is the practice of charging higher import tariffs on processed goods than on unprocessed goods. Piermartini (2004) noted that tariff escalation in developed countries significantly discourages diversification of production in developing countries, and increases their reliance on unprocessed primary commodities.

- Foreign Direct Investment and Currency Controls

Balassa (1984) pointed out that export taxes lead to the reduction in price of commodities, and in Least Developed Countries (LDCs), these are mostly raw materials. The lower domestic prices are then able to attract foreign investment and simultaneously promote industrial growth. Export tax can also reduce domestic prices of the taxed good thereby offsetting inflationary pressures.

Map 1 below shows the countries that impose export taxes which, according to Solleder (2013), have significantly increased, from 49 in 2004, to 62 in 2013.



Map 1: Countries that Impose Export Tax

Source: Solleder (2013)

Note: Dark blue shade indicates countries applying export taxes. Grey shade is used for countries that do not impose export taxes and for cases where information is not available

Laborde (2013) pointed out the fact that export taxes are not the same as export subsidies. Export subsidies, unlike the export taxes, are explicitly regulated by Clauses in the WTO Agreement on Subsidies and Countervailing Measures (ASCM), and are classified under Non-Tariff Barriers (NTBs). According to the Agreement, a subsidy shall be deemed to exist if: (a)(1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as "government"), i.e. where: (i) a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees); (ii) government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits; (iii) a government provides goods or services other than general infrastructure, or purchases goods; (iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments; or (a)(2) there is any form of income or price support in the sense of Article XVI of GATT 1994; and (b) a benefit is thereby conferred.

Thus, from the foregoing, as Ehlermann and Goyette (2006) observed, it is clear that export subsidies are subsidies contingent, in law or in fact, whether solely or as one of several other conditions, upon export performance, including the programmes included in the explanatory list of export subsidies, which can range from direct export subsidies to currency retention schemes, exemptions, remissions or deferrals of direct taxes on exports, excessive duty drawback, provision of export credit guarantee, insurance programmes at premium rates or export credits below commercial rates.

Apparently, the issues around export subsidies are very contentious from both developed and developing countries' perspectives. In a report by UNCTAD (2003), some developing countries have argued that the extent to which they provide export subsidies to offset certain disadvantages they face ought not to be countervailable. However, Panels have rejected this line of reasoning. At the same time, some authors, including Milberg and Amengual (2008), argue that if existing incentive schemes are to be kept in place, the contingency on exports could be lifted if firms were allowed to operate in EPZs without being required to export only, but could also supply the

domestic market. Another solution that keeps incentives WTO-compatible would be to extend benefits enjoyed by exporters within the zone to outside firms.

1.2 Export Taxes in the COMESA and SADC Regions

On the regional front, Malawi is a member of both the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC). Some of the general objectives of existence of both COMESA and SADC include:

- Facilitating, increasing and promoting intra-regional trade through the gradual reduction and eventual elimination of tariff and non-tariff barriers (Government of Malawi, 2012);
- Promoting cross border trade and investment; and
- Enhancing the economic development, diversification and industrialization of the region.

While COMESA envisaged the establishment of a Common External Tariff by the year 2004, the SADC Trade Protocol was signed in 1996 and targeted the establishment of a Free Trade Area within eight years of its entry into force (SADC Annual Report, 2007). Liberalization of free trade of about 85 per cent was supposed to be completed by 2008, with the remaining 15 per cent to be completed between 2008 and 2012.

There were several opportunities for Malawi in joining these regional groups. Apart from market access opportunities, cooperation in the area of transport, energy and infrastructure development provides a window for the alleviation of some of the major constraints faced by small land-locked economies like Malawi. However, there are also difficulties arising from overlapping membership, including problems of documentation, understanding and interpretation of the Rules of Origin (RoO) by the private sector.

In terms of the use of export taxes in the regional trading blocs, information indicates that almost all the Member States across the two Regional Economic Communities (RECs) have imposed export taxes on various products at one time or another.

The following **Table 1** shows these Member States, products and their revenue collection from export taxes:

Country	Products	Total Revenue Collection (2012/2013) in US Dollars
Tanzania	Hides and skins, Nuts (coconuts and cashew nuts.)	21, 810, 204
Namibia	Wooden furniture, Fermented beverages	4,544,824
Malawi	Wood	3,881,102
Sudan	Hides and skins. Bovine animals	711,353
Kenya	Hides and Skins	281,054

Table 1: Countries Imposing Export Taxes in COMESA/SADC/EAC

Source: COMSTAT

The type of products and amount of revenues collected vary from country to country within the region. Namibia imposed taxes on several products in 2012, collecting approximately USD 4,544,824 in revenue, while Tanzania collected USD 21,810,204 from products ranging from nuts to hides and skins. On the other end of the spectrum, there are countries that are levying export taxes on few products and collecting minimal revenue. This might be an indicator that revenue collection may not be the primary objective of the levied export tax.

From Table 1, it should be noted that the Government of Kenya only collects export tax on a few products and, thus, reaps minimal revenue. This might be done with the aim of increasing local value addition and development of the infant industry.

It is important to note that COMESA and SADC have handled the issue of export taxes in two different ways. In the COMESA region, the application of export taxes is not necessarily prohibited, although the provision of Articles 45 and 46 of the COMESA Treaty spell out the Scope of Cooperation in Trade Liberalisation and Development and Customs Duties, respectively.

However, according to the Official Gazette of COMESA (2009), “Customs Duties” means, in summary, import and export duties and other charges of equivalent effect levied on goods by reason of their importation and exportation. Thus, if the COMESA Treaty (1994) is read together with the Official Gazette (2009), which contains the Council Regulations Governing the COMESA Customs Union, it is apparent that the spirit of the establishment of the Customs Union is to eliminate barriers for both imports and exports. However, the issue is how COMESA Member States should deal with export taxes given this lack of clarity.

A report by Tralac in 2013 stated that the COMESA instruments are silent on the issue of export tax, hence, Member States can choose whether or not to impose export taxes, depending on the trade policy objectives of those Member States. However, even if consideration was given to Article 50 of the COMESA Treaty, it is still not apparent how Member States should treat the imposition of export taxes.

Article 50 states that, “*A Member State may, after having given notice to the Secretary-General of its intention to do so, introduce or continue or execute restrictions or prohibitions affecting:*

- (a) The application of security laws and regulations;*
- (b) The control of arms, ammunition and other war equipment and military items;*
- (c) The protection of human, animal or plant health or life, or the protection of public morality;*
- (d) The transfer of gold, silver and precious and semi-precious stones;*
- (e) The protection of any item deemed to be of national importance provided that the Member State concerned shall furnish proof to the Council that the item is of national Importance; and*
- (f) The maintenance of food security in the event of war and famine.*

2. A Member State shall not so exercise the right to introduce or continue to execute the restrictions or prohibitions conferred by this Article as to stultify the free movement of goods envisaged in this Chapter.

3. Security and other restrictions imposed in accordance with paragraph 1 of this Article shall not extend for more than is necessary to achieve security aims and other risks intended to be eliminated and shall be applied on the basis of non-discrimination”.

Furthermore, the COMESA Customs Management Act of 2004 provided for prohibited and restricted goods, just like Article 50 of the COMESA Treaty, and it is to this effect that export of certain goods may be prohibited or restricted under the Act. Currently, only three countries within the COMESA, namely, Kenya, Sudan and Tanzania, impose export taxes on hides and skins.

On the other hand, SADC has a different approach and has addressed the issue of taxing exports under Article 5 of the SADC Trade Protocol. The Trade Protocol states that *“Member States shall not apply any export duties on goods for export to other Member States. However, this Article shall not prevent any Member State from applying export duties necessary to prevent erosion of any prohibitions or restrictions which apply to exports outside the Community, provided that no less favorable treatment is granted to Member States than to third countries.”* Tralac (2014) looked at the SADC’s approach to export taxes as being considered as a middle ground. This is because Member States are free to impose taxes on products being exported outside of the region, although this is qualified by the fact that no more favorable treatment is granted to Member States. In this regard, the decision to ban export taxes within the SADC region ensures that the FTA operates as liberally as possible.

In the latest development around the formation of the Tripartite Free Trade Area (TFTA), the issues of export taxes are availed under Article 9 of the Tripartite Free Trade Area Agreement (“the Agreement”), which states that Tripartite Member States shall not apply any export duties on goods for export to the territories of the Tripartite Member States except as provided for in Annex 6 on Trade Remedies. The Tripartite Member States have presented various proposals regarding the treatment of export taxes, and these can be summarised as:

- Prohibited within the region;
- Permitted within the region and all other market destinations;
- Permitted within the region with justification no new taxes permitted except with certain justifications; and
- The Free Trade Area (FTA) should be silent on the matter entirely.

The matter is yet to be concluded in the subsequent negotiating rounds. However, it is important for Member States to understand that export taxes cannot have a blanket approval because their application depends on the prevailing circumstances at a particular time.

1.3 Export Taxes in the Economic Partnership Agreement (EPA) Negotiations

The issue of export taxes is one of the contentious issues in the EPA negotiations, be it in SADC, East African Community (EAC), and the East and Southern Africa (ESA) configuration. Whereas the three configurations see export taxes as a tool for industrial development and an integral part of the policy space for further economic development, the European Union contends that export taxes restrict access to raw materials and are trade-distorting. However, the European Union is aware that the export taxes are not illegal or prohibited in the World Trade Organisation.

Ancharaz (2014) noted that the European Union issued a *démarche* in the Doha Round, to reduce or eliminate export taxes. Its Raw Materials Initiative reveals a key reason motivating the EU's position, which is the fact that Export Taxes restrict market access to critically needed raw materials and inputs, and raise their prices. Ancharaz (2014) further noted that it is partly for this reason that the European Union has insisted on a clause on export taxes in the EPA negotiations, which essentially prohibits new export taxes from being imposed, or their current levels from being increased, except under very specific circumstances. For example, in the Article 15 of the EU-EAC EPA Framework, it is stated:

1. *The Parties shall not institute any new duties or taxes in connection with the exportation of goods to the other Party that are in excess of those imposed on like products destined for internal sale;*
2. *Notwithstanding paragraph 1, the EAC Party can impose a duty or tax in connection with the exportation of goods, with the authorization of the EPA Council, under the following circumstances:*
 - (a) to foster the development of domestic industry; or*
 - (b) to maintain currency value stability, when the increase in the world price of an export commodity creates the risk of a currency value surge; and*

3. *Such taxes should be enforced on a limited number of products for a limited period of time, and reviewed by the EPA Council after 24 months.*

Ancharaz (2014) observed that the EU-SADC Interim Economic Partnership Agreement contained a similar provision in Article 24. However, although the specific details vary, in both cases, the EPA draft text states that no new export taxes may be imposed. Nevertheless, two exceptions are admitted in the case of the East African Community, namely, to foster the development of domestic industry and to maintain currency stability. In the case of SADC, there are three exceptions, namely, in situations where there is need to raise revenue, to protect infant industries, and to protect the environment. Even then, such taxes can only be imposed with authorization of the EPA Council, on a “limited number of products” and for a “limited period of time”.

Ancharaz (2014) further observed that the common position of the two blocs, namely, SADC and EAC, is that the language on export taxes is strewn with grey areas. Moreover, they fear that the EPA Council’s decision may take long and that the outcome may not be in their favour. Both SADC and EAC view the EU’s demand as unfairly restricting their use of export taxes as a tool of industrial development and raw material beneficiation and, thus, limiting their policy space. Some stakeholders assert that this a matter of sovereign right and have gone so far as claiming that the issue of export taxes was non-negotiable.

The arguments by the three configurations in the EPA negotiations are, indeed, in line with the general notion that Export Taxes are not WTO-incompatible. In this regard, there was no need for the EU to insist on them for the EPA to comply with GATT Article XXIV.

1.4 Malawi Context

Malawi is a landlocked country situated in Southern Africa, and is surrounded by Mozambique (in the south and southeast), Tanzania (in the northeast), and Zambia (in the west). The country comprises of an area land mass of almost 118,500 square kilometers, and about 24,420 square kilometers of this land mass, is covered by Lake Malawi. Malawi is an agrarian economy with a few manufacturing industries and little mining activity. Consequently, Malawi exports mostly raw agriculture commodities and natural resources.

This current study focuses on timber, which is primarily managed by the Forestry Department, the Government Department responsible for all forestry matters. When Malawi got independence in 1964, the Government invested in the establishment of industrial forest plantations in all three regions of the country. This was done for the purposes of pulp and rubber production (Government of Malawi, 1970). Regrettably, due to unforeseen eventualities, the intention for establishing the forests diverted as years passed and the intended dream fell by the way side. This resulted in timber production dominating as the main activity in plantations.

Munthali (2004) observed that Malawi has, since the early 1980, implemented the IMF and World Bank-supported Structural Adjustment Programmes (SAPs), the major thrust of which has been the liberalisation of the economy to create an enabling environment for both domestic and foreign investments. The WTO Report (2010) observed that in recent budgets, for example, maximum tariffs have successively been reduced to the current level of 25 per cent. Duties on capital goods have been brought down to zero per cent. However, this liberalisation process has failed to bring about a marked change in either the share of Gross Domestic Product (GDP) or in the structure of Malawi's trade.

In 1994, Malawi moved from a one-party system of Government to a multiparty governance system which, inevitably, necessitated the introduction of a number of reforms, some of which were decentralization of governance structures and privatization of state assets. According to Luhanga (2009), both the political and governance reforms that took place after the democratic dispensation have had implications on the management of both the Malawi forests and production and trading of timber products. These are the forests which the National Statistics Office (NSO) classified into four subsectors in 1980, namely: timber production, cane furniture, juice production and carvings. According to the current statistics, of the forests under the direct control of the Government, totaling 73,000 hectares across Malawi, 68,000 hectares are plantations for pine trees, while the rest are dedicated to cypress and cedar tree species, as well as eucalyptus aimed at providing fuel wood and poles.

It is important to point out that due to the high levels of poverty in Malawi, coupled with the fact that over 85 per cent of the Malawi population lives in rural areas, the issue of affordable sources of energy is very critical among the people. Thus, as noted by Luhanga (2009), the plantations are a major source of energy for both domestic and industrial requirements. Consequently, the National Forestry Policy framework, approved in 1996, is aimed at improving sustainability of the contribution of forest resources for the betterment of quality of life of Malawian citizens. In this respect, the Government formulated a National Forestry Programme (NFP) in 2001 in order to operationalise the Forestry Policy.

1.4.1 Privatization Drive

Malawi's policy developments, which were mainly driven by external controls, partly arising from the decentralization and privatization initiatives, had very huge budgetary implications. Consequently, funding to Government Ministries, Department and Agencies (MDAs) was drastically targeted towards social sectors, which resulted to inadequate allocation of funding to the Department of Forestry. This adversely affected the forest plantations, because Government could no longer manage and protect the forestry resources. At the same time, the low funding levels forced the Government to undertake a privatisation-induced retrenchment exercise in 1995. As a result of the reduced labour, it has become almost impossible to control what is happening in the large plantations.

A combination of poor pricing and malpractices in the timber trade has made the Department of Forestry unable to make the mature plantations self-sustaining. For instance, the Department of Forestry highlighted that Malawi suffered from forest degradation due to heavy tree harvesting, largely on account of poverty and rapid population growth. The rapid population growth has resulted not only in increased demand for land for agricultural activities and infrastructure development, but also increased demand for wood fuel for energy. This pressure compelled the Government to embark on various re-forestation programmes, as well as forestry conservation and management programmes, to enhance sustainable timber industry development in the country. This initiative has involved many of the stakeholders in the agricultural and forestry sectors, including the private traders.

The increased pressure that the Government has encountered over the years prompted it to search for different options for managing the Malawi forests. Therefore, in 1995, the Government instituted a study that presented strategies for Ownership and Management Options for Industrial Plantations. Another study followed in 2003, which culminated into a Strategy Paper (2003), and this study provided options for private sector involvement in the management of state owned industrial forest plantations. According to Luhanga (2009), some of the options included public supply and operations; corporatisation and commercialisation; management contracts and outsourcing; concessions; and divestiture by sale of assets. The most feasible option that Government chose was the logging concessions and, consequently, the Department of Forestry entered into a number of logging concession agreements with several wood companies and timber processors.

1.4.2 Local Timber Demand

In Malawi, the increased demand for timber is as a result of demand for fuel wood, and gum poles and planks for the construction industry. People go into the forest plantations to harvest timber because the Department of Forestry does not have the required labour force to provide such service to the customers and, thus, the customers themselves meet the costs. This has led to abuse in harvesting the timber because, as Kambewa and Utila (2008) observed, the customers cut much more than the amount of wood purchased, especially in areas where the Government has not signed long-term concession agreements.

1.4.3 Foreign Timber Demand

Malawi is experiencing very high demand for timber for export through Zambia, Tanzania, South Africa and Kenya. However, the study could not establish the exact destinations for the timber products from Malawi which are exported by mostly foreigners from neighbouring countries, where the forestry resources are even in abundant supply. Nevertheless, from the interviews conducted, as well as literature review, the reason for the huge demand for timber for export is partly attributed to foreign traders taking advantage of low stumpage fees, as well as Malawi's laxity in the application laws, rules and regulations.

The foreign traders are able to infiltrate the established harvest-licensing system to the extent that they are engaged in harvesting, transporting and exporting of the prime timber which is a lucrative business venture. Luhanga (2009) noted that the export is so attractive that foreign traders have slowly pushed locals out of the timber trade.

The Tables below show some of the statistics that the study has generated based on the information from FAO reports:

Year	Kenya		Mozambique		South Africa		Tanzania		Zambia	
	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)
2002	-	-	-	-	-	-	-	-	2601	60
2003	-	-	2	71	25	13	-	-	1	9
2004	-	-	-	-	25	9	-	-	1	3
2005	-	-	3802	197	39	9	251	5	4347	116
2006	-	-	-	-	-	-	786	13	5579	183
2007	12275	715	2359	195	1310	477	2192	130	30	3
2008	25067	1466	723	62	971	289	2246	125	26	2
2009	22757	2370	174	11	125	15	3947	246	1688	121
2010	4744	264	180	45	1310	643	209	12	3938	252
2011	242	31	34	3	321	169	134	16	4671	334
2012	-	-	-	-	-	-	20	9	-	-

Table 2(a): Malawi's Sawn Wood Export and Value of Trade flow

Source: FAOSTAT

Table 2(a) shows that sawn wood from Malawi was mostly destined to Zambia in the early years from the year 2002 to 2006. It was later seen to have been traded more to Kenya in 2007. This commodity category includes planks, beams, joists, boards, rafters, scantlings, laths, boxboards and lumber.

Year	Kenya		Mozambique		South Africa		Tanzania		Zambia	
	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)
2002	-	-	-	-	-	-	-	-	-	-
2003	-	-	29	2.00	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-	-	-
2005	-	-	56	3.00	4	0.00	-	-	22	1.00
2006	28	1.00	8	0.00	-	-	-	-	2	0.00
2007	-	-	-	-	780	41.00	3	0.00	3	0.00
2008	470	25.00	4418	234.00	2908	154.00	1	0.00	148	8.00
2009	-	-	997	53.00	1304	69.00	-	-	4	0.00
2010	-	-	3168	168.00	1497	79.00	-	-	12	1.00
2011	-	-	-	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-	-	-	-

Table 2(b): Malawi's Industrial Round Wood Export and Value Trade flow

Source: FAOSTAT

Table 2(b) shows the trade flow of industrial round wood which mostly went to Mozambique and South Africa. This industrial round wood includes all industrial wood in the rough which may be saw logs, veneer logs and pulp wood. Specifically, from the statistics generated 2008 saw the highest trade, but overall the trade records of this commodity were unavailable in the recent years of 2011 to 2012 for the countries used in the study.

Year	Kenya		Mozambique		South Africa		Tanzania		Zambia	
	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)	Quantity (in Tonnes)	Value (1000 USD)
2002	-	-	-	-	-	-	-	-	2	1.00
2003	-	-	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-	-	-
2005	-	-	39	2.00	-	-	-	-	-	-
2006	35	0	-	-	-	-	-	-	-	-
2007	56	3.00	-	-	-	-	-	-	-	-
2008	25	2.00	-	-	-	-	-	-	-	-
2009	-	-	-	-	56	4.00	-	-	-	-
2010	-	-	-	-	6	0	-	-	-	-
2011	-	-	-	-	-	-	-	-	90	5.00
2012	-	-	-	-	-	-	-	-	-	-

Table 2(c): Malawi's Chips and Particles Export and Value of Trade flow

Source: FAOSTAT

Chips and Particles were traded in least amount as compared to the other two commodities (Sawn wood and Industrial round wood) used in the study. Kenya imported the chips and particles in the earlier years of 2006 to 2008 but data regarding the recent years was not found. Zambia recorded some flow in 2011. Chips and particles include wood that has been reduced deliberately to small pieces from industrial residues suitable for pulping, making particle board and fibre board production

1.4.4 The Main Timber Plantation

Malawi's largest forest plantation is the Viphya Plantation in Chikangawa, in Mzimba District in the Northern Region. Following the privatisation through concessional agreements, the Malawi

Government directly controls 33,000 hectares of this plantation, while approximately 20,000 hectares are managed by the private traders or companies.

According to a 2005 FAO Report, global trade in primary timber products had risen substantially, reaching USD 126,000 million in 2000. Hence, as an abundance factor, timber products are products which a developing country like Malawi can produce at lower domestic cost and easily trade internationally. This is, therefore, an area where Malawi has high growth opportunity which, unfortunately, is being exploited by foreign traders.

Malawi's economic development prospects will depend on its ability to adjust, and the increased support or assistance from the international community will enable the country to meet adjustment costs. The assistance being sought includes providing unrestricted market access to products of export interest to Malawi within the framework of the multilateral trading system, for which Malawi sees the WTO as an increasingly important multilateral framework for achieving national trade policy objectives. However, the increasing complexities of the multilateral trading systems work against Malawi, given the country's limited technical, financial and institutional capacities.

Interpretation of the various Uruguay Round Agreements has also been a major challenge for Malawi. This is due to the capacity constraints, in terms of financial, human and institutional needs, that the country must meet in order to comply with Notification Requirements; align national laws, rules and regulations to the WTO requirements, and enforce the laws and regulations. For example, the Anti-Dumping, Safeguard Measures, Countervailing Duties and Copyright comply with Agreement on Customs Valuation and Dispute Settlement Procedures. In a quest to effectively implement Malawi's obligations and rights under the WTO, the Government of Malawi, with the assistance of the Commonwealth Secretariat and other international cooperating partners, such as Department for International Development (DfID) and United Nations Economic Commission for Africa (UNECA), has worked on amending existing trade related laws and drafting new ones to be in conformity with WTO Agreements. Malawi needs to develop trade negotiating strategies, in such instances, since there will be need to strengthen the National Working Group on Trade Policy (NWGTP) as well as the Inter-

Ministerial Committee on WTO matters. This will entail wider inter-organisational relationships and increased consultations.

According to Raja (2006), as countries move progressively towards more liberalization of global trade, the use of trade restrictions such as the imposition of export duties should ideally be retrogressive. However, according to the WTO (2002), the practice shows a different story on the ground because almost one-third of countries in the world use export taxes to meet various objectives. Furthermore, Piermartini in (2004) found that the use export taxes, especially in developing countries, was necessary in assisting these countries increase fiscal revenue and stabilize prices.

Malawi has used export taxes as a trade policy tool in a number of instances, such as export taxes on tobacco, cotton, maize and pulses. However, the Malawi Revenue Authority (MRA) records show that export taxes, though not widely publicized, have also been imposed on exports of timber products out of Malawi. In recent years, there has been an influx of foreign buyers and sawyers who come from countries where exorbitant stumpage fees. The foreigners export timber to other countries without following normal channels that would have helped the Malawi Government benefit from the forest. Furthermore, evidence from the forestry sector especially where timber is produced, shows that market failures in this sector create externalities¹ arising from environmental concerns (Yaron et. al., 2010). In this regard, the Malawi Government's decision to impose export taxes on timber products may have raised a number of concerns to both domestic producers and exporters. It is important to understand the context in which the policy decision was made and its overall effect on trade.

1.5 Problem Statement

Out of approximately 53,000 hectares of the Chikangawa forest, there is about 33,000 hectares which is still under the Government control to allow access to Malawians that are able to harvest it. Consequently, it is this 33,000 hectares that has long suffered uncoordinated harvesting of timber trees. Yaron et. al. (2010) revealed that the forestry sector in Malawi made an additional

¹ An externality arises when a person engages in an activity that influences the well-being of a bystander and yet neither pays nor receives any compensation for that effect. If the impact on the bystander is adverse, it is called a negative externality; if it is beneficial, it is called a positive externality.

contribution of 4.3 per cent to the country's Gross Domestic Product in 2010 through exports, rising from the official 1.8 per cent of GDP in 2009. In 2011 the Malawi Government suspended all timber exports for a month, with immediate effect, because of rampant corruption and smuggling, mainly to East Africa. According to the study by Kafakoma and Mataya (2009), the Government also introduced a 100 percent timber export tax to curb illegal trade after it was discovered that a huge volume of timber, that is approximately 80 per cent, exported from Malawi to East Africa, is unrecorded. The unrecorded trade was essentially a lost opportunity for the Government of Malawi to collect, not only the export tax, but also to get back the remittances to boost the foreign exchange earnings.

With the Government of Malawi imposing export tax on timber, there is need for greater understanding of the policy considerations for the decision and its impact on the overall economic growth and development. There is growing debate worldwide in trade arrangements on the use of export and quantitative restrictions due to the distortive trade tendencies (WTO, 2010).

1.6 Purpose of the Study

The Malawi Government developed a national Vision, through a national consultative process, and this Vision 2020 states that “by the year 2020, Malawi, as a God-fearing nation, will be secure, democratically mature, environmentally sustainable, self-reliant with equal opportunities for and active participation by all, having social services, vibrant cultural and religious values and a technologically driven middle-income economy” (IMF Report, 2012). The challenge is to consolidate the Vision and other policy initiatives into a development framework with clear strategies and priorities for short and medium and long term implementation. The priorities need to speak to the Vision, and in achieving the objective of being a middle income country, the sustainable use of natural resources and the Government's ability to spur industrial growth become a central feature. In this regard, the aim of this study was to examine the use of export taxes as a trade policy tool in context of the timber industry in Malawi in order to understand the underlying objectives of the Government in introducing the export tax. This entails investigation into the extent to which the export tax imposition will impact on the economy and the overall

welfare of the society in terms of achieving industrial development and sustainable economic development.

1.7 Objectives

The objectives of this study were two folds:

- To find out the rationale by the Malawi Government for imposing export tax on timber products, and whether that was done in line with provisions under various protocols and legal instruments.
- To establish the extent to which the application of the export tax on timber products has achieved the policy targets, and how much policy space the Government has got for future application of the trade policy tool.

1.8 Significance of the study

The study mainly focused on the following research questions:

- Are export taxes an effective trade policy tool for promoting international trade and competitiveness for Malawi?
- What is the Government's rationale for introducing export taxes on timber products?
- Based on the Government's rationale, what has been the effect of the application of the Export Taxes on timber production and timber exports?
- What is the available policy space for the use of export taxes as a trade policy tool in Malawi's timber industry?

1.9 Research Assumptions

The study assumes the availability of data to support the tax imposition. Further literature on the timber industry would be very vital in relating the objectives to the results.

1.10 Chapter Summary

The forestry sector in Malawi where timber products are produced plays a vital role in the growth of the economy. The trade policy adopted as a mitigation policy tool seems to bear some implication on the forest sector in Malawi. Increase in unrecorded trade in timber products out of

Malawi to various destinations, have had a negative effect on the economy in terms of lost revenue and destruction of local forests. The study seeks to find out the reasons for the imposition of a tax policy as a trade policy tool and its effect on the economy and the forest sector. Thus the study will help in trade policy reformation for Malawi by finding ways to address trade discrepancies properly and efficiently.

1.11 Organisation of the Study

This study has been organized as follows: Chapter Two presents an overview of Malawi's timber industry. In Chapter Three we look at theories concerning export taxes. The chapter also reviews relevant literature by taking a look at some traditional studies that have explored the concept of export taxes. Chapter Four presents the methodology that the study will adopt as well as data sources and data manipulation techniques. Chapter Five gives the empirical results and other findings. Chapter Six gives discussion of the results and Chapter Seven gives the conclusion of the study, policy recommendations and suggested areas for further research.

CHAPTER TWO

THE TIMBER INDUSTRY IN MALAWI

2.0 Chapter Overview

This chapter gives an overview of the timber industry in Malawi. It discusses the geographical areas involved in timber production, timber products and their markets, and the type of traders taking part in this production.

2.1 Introduction

The Forestry Department (2012) indicated that the forestry cover in Malawi is still above 3 million hectares. In relation to this, statistics by Kambewa and Utila (2008) suggested that Malawi has 3.4 million hectares of forest and an annual deforestation rate of 33,000 hectares. Viphya Plantation, a man-made forest reserve, is one of the largest in Southern Africa. This plantation was established by the Late President Dr. Hastings Kamuzu Banda during the early years of Malawi's Independence, as part of the Government's initiative to make Malawi self-sufficient as an international supplier of construction timber. The First President's vision was to make Malawi a major supplier of softwood timber to African nations, such as South Africa, Kenya, Mozambique, as well as the Middle East, resulting in foreign exchange generation for Malawi. Regrettably, the new democratic dispensation did not carry on the vision and now Viphya Plantation stands at 10 per cent forest cover, and is dwindling at a very fast rate (National Statistics Office, 2012).

In 2011, the Government created a Forest Development Fund whose objective was to collect categories of payments from timber export revenues. The Fund was established to retain 80 per cent of revenues collected, in order to be used for re-forestation programme. Despite this, there is little indication on the ground that replanting is taking place. In 2013, the Ministry of Natural Resources and Environmental Affairs delegated the planting of up to 60 million trees with a preference for early maturing trees which would be available for harvest within 15 years.

The planting of new forests by the Government, private organizations, and individuals, has taken different forms in Malawi over the years. Timber plantations in Malawi can either take the form of commercial or rural participation plantations (Kambewa and Utila, 2008). Commercial

plantations include both centralized and privately initiated plantations. The government promoted tree planting by rural households, individuals, estates and other industries.

In 2012, the Government of Malawi announced a policy measure, essentially suspending awarding of harvesting licences for timber to foreign investors. This was in contrast to the practice with the other economic sectors, such as mining, fisheries, tourism, financial services and manufacturing where foreign are given licences. The justification for this policy stand was that there was abuse of the natural resource, as it was discovered that large amounts of timber were being exported by the foreign investors, but there was little benefit to the country. Unfortunately, this suspension did not directly address the problem, because the National Statistics Office (2012) reported that timber prices from Malawi were much lower than other exporting nations in Eastern and Southern Africa. In its report, the African Report (2013) reported that in the East African Market, acquiring 25 pieces of timber, each measuring 18 feet long would cost in the range of MK85,500. However, in Malawi, the same quality and weight is priced at MK35,000.

2.2 Forest Categories in Malawi

Table 3 shows data from the Department of Forestry in 2013. The forest cover in Malawi is broken down into different categories.

Forest Category	Area (hectors)	Percentages of total area
Forest reserves	870,052	22%
National parks and game reserve	981,479	25%
Government plantations	90,000	2%
Private plantation	20,000	0.5%
Customary land	1,988,255	50.5%
Total	3,949,786	100%

Table 3: Forest Categories in Malawi

Source: Department of Forestry

Forest reserves cover 22 per cent of the country and are managed by the Department of Forestry. The Government of Malawi in (2008) reported that there are 8 forest reserves scattered across Malawi. Most of these forests are on hills or mountains protecting fragile areas from erosion and environmental degradation. Plantation forests on the other hand include government and private plantations plus trees on farms. Government plantations are run by the Department of Forestry and cover just under 2 per cent of the total forest area (Kambewa and Utila, 2008).

2.3 Main Timber Production Sites

The Department of Forestry in Malawi is responsible for the management and protection of 88 gazetted forest reserves, with a total area of 9,185 square kilometres, and 21 proposed forest reserves covering an estimated area of 1,377 square kilometres. Currently, all plantations are managed for the production of timber. The Viphya Plantation area located in the Northern part of Malawi is the largest plantation in the country, and one of the largest in Southern Africa. With about 53,501 hectares of forest trees, Viphya Plantation contains seven forest stations, namely, Champhoyo, Chikangawa, Kalungulu, Luwawa, Lusangazi, Mazamba and Nthungwa Stations, with Chikangawa Station as the headquarters (Kambewa and Utila, 2008).

Three types of timber producers operate in this plantation. These are large-scale, medium-scale and small-scale enterprises. The two large-scale processors are Wood Industries Company of Malawi (WICO) and RAIPLY limited, an international company operating in five other African countries. The medium-scale category comprises mobile saw millers, while the small-scale enterprises consist of pit sawyers.

2.4 Products from the Timber Industry

According to the study done by Kambewa and Utila (2008), there are two main categories of products from the timber industry. The first is the softwood products, which is approximately 85 per cent of the timber production forests. The other category is the hardwood products, and the eucalyptus is the main hardwood specie.

Luhanga (2009) noted that the Forest Policy is clear about the need to separate commercially productive industrial plantations from Forestry Department protection and extension functions. It also recommends the subsequent setting up of a Treasury Fund for Industrial Plantations with a

view to the privatisation of these industrial plantations. Although these policy guidelines are in place, Malawi lacks the impetus to implement its policies. To date, there has been no attempt to involve non-governmental organisations in the planting of forest reserves. Even local communities, which are also a useful resource in re-afforestation programmes, are only involved in forestry activities that revolve around bee-keeping, grazing, mushroom collection and harvesting grass. If communities that are close to the forest reserves were to really play an active role, they would participate in tree planting, weeding and screening firebreaks. However, these activities are not being carried out with the involvement of local communities, to the detriment of forest plantations.

2.5 Markets for Timber Products

Forests provide vast resources and economic opportunities, such as timber, firewood, medicines, and fruits, which are sold in various local and international markets. Luhanga (2009) pointed out that forests in Malawi could also provide services such as ecotourism to generate substantial revenues for the country.

In the 1960s, the Government of Malawi had planned to enter the world market as a pulp supplier, because it was an industry with high prospects for markets and favourable prices. The Chikangawa Plantation was, therefore, to provide the pine softwoods, which the international market demanded. However, plans to roll out on a full scale were disrupted by the global developments that took place around 1981. In essence, it was clear, as Luhanga (2009) observed, that following the rise in the world price of oil, the disruption of rail links to the Indian Ocean ports due to insurgencies in Mozambique, and a glut of pulp on the world market, it was unlikely that construction of a large-scale pulp mill would be feasible for some years. Luhanga (2009) further noted that many studies that were carried out concluded that investment in a pulp mill was neither economically feasible nor environmentally sound. Some of the reasons advanced were that Malawi is landlocked and, therefore, could not sustain supply, especially at a time when land or lake transport costs had increased due to oil price hikes in the mid-1970s.

In the 1980s, the Government of Malawi went back to the drawing board, following the turn of global events, and looked at the possibilities of using the forestry resources for charcoal

production to cater for the needs of both households and industries. However, the low-density pines yielded more charcoal dust than coal pieces. The project was abandoned because the market did not respond positively to the product. Government then sought alternative products and considered the production of plywood, block board and sawn timber, for both local consumption and export by Malawi-based industries.

Luhanga (2009) contended that management of plantations for pulp is totally different from management for timber. On the one hand, to get a long fibre that is good for paper production, trees grown for pulp are planted at shorter planting distances than trees intended for timber. Because of the lack of viable alternatives for plantation wood in the form of pulp to supply a paper mill, the wood is now being sold for timber and firewood production at the rate of 500 hectares per year (Government of Malawi, 2012). The “waste” wood, whips, dead and dying trees are scavenged by local firewood vendors and ferried on trucks or bicycles in billet form to the urban markets. The rest of the tree species are consumed through firewood, transmission and building poles.

Luhanga (2009) reported that annual wood consumption for timber and transmission poles is estimated at 1.5 million cubic metres. Local consumption accounts for about 50 per cent of this production. The export trade for timber in the Northern part of Malawi has been heavily infiltrated by enterprising refugees from Somalia and traders from Tanzania. Unfortunately, due to apparent growing demand for the product, the wood produced is ungraded when sold. Raiply Industries located within Viphya plantations has had the monopoly of export of kiln-dried timber, which is mainly destined for South Africa and Botswana. Exporters are able to load more kiln-dried timber on trucks than air-dried timber, because of the comparatively less relative humidity.

The major local markets for the timber products are found in Lilongwe, Blantyre and Mzuzu. Currently, consumers can buy directly from the sawyers in production plants. More established mobile saw millers have points of sale in the urban areas from where consumers buy. According to Kambewa and Utila (2008), there are also middlemen who buy from the sawyers to sell in the urban areas.

The study by Kambewa and Utila (2008) also revealed that hardwood is mainly sold at a separate site from the softwood, and is used mainly for making doors, and door and window frames.

However, for the regional and international markets, there are some producers who prefer to directly engage the international buyers. There are also others who prefer to export the planks directly to consumers in other countries. Most of the produced timber for export is taken to countries such as Kenya, Mozambique, Somalia, South Africa, Tanzania, Zambia, Zimbabwe, and the Middle East (Government of Malawi, 2010). Therefore, the challenge on the part of the Government is to know the exact quantities and monetary values of the timber products exported, while being able to trace the foreign exchange earnings.

2.6 Export Permits

Kambewa and Utila (2008) observed that timber exporters locally do not need an export permit or a licence to export timber. Thus, the timber products are exported without an Export Permit or SPS Certification. It was observed that while there are laws and regulations governing the timber production, it is apparent that there is laxity and the laws, rules and regulations, are either not enforced by officials at the borders, or the exporters pay them bribes. A significant number of mobile sawyers are non-Malawians. Although the Department of Forestry, in conjunction with the Department of Immigration, makes an effort to keep track of these individuals, they often operate under Malawian names and Malawian managers.

2.7 Challenges in the Malawi Timber Industry

The study by Kambewa and Utila (2008) showed that the Malawi timber industry has been affected by several negative factors in recent years, and these include the low annual budget resources that facilitate the effective control, management, utilization and protection of resources; the foreign trade, deforestation and poor forest management. The retrenchment of over half the labour force in 1995, the reduction of operational budgets, and higher incidences of forest fires and forest produce theft, both by staff and local communities, all constitute factors, which have significantly contributed to forest degradation. As a result of these challenges, the Government finds it difficult to plough back resources for the rehabilitation and rapid re-forestation of the plantations, especially the Viphya Plantation. Over the years, there has been very little replanting but so much cutting.

The African Report (2013) noted that the Auditor General's report disclosed that most operators do not meet basic environmental requirements; an estimated 75 per cent of operators failed to create environmental plans; and none had reforestation plans, except for RAIPLY Limited. This study took a critical look at each factor and saw how it impacted the timber industry.

2.7.1 Staff Turnover

The Africa Report (2013) indicated that the Department of Forestry has, over the past three years, been affected by a high rate of staff turnover, with some staff members opting for greener pastures outside the Civil Service. This problem is attributed largely to lack of training and resources to enable staff to carry out their planned programmes. At the lower cadre levels, staff turnover is mainly attributed to low funding levels for forest operations.

2.7.2 Encroachment

According to Luhanga (2009), high population growth, dependency on farming and extensive farming practices have led to a shortage of land in the communal areas. Excessive pressure is experienced in some of the major forest reserves due to farming encroachment and illegal exploitation of forest produce for timber and firewood. These practices are, particularly, serious in the densely populated districts and in forests close to urban areas. The encroached areas in forests are usually on steep and fragile land that is all too often prone to landslides and flash flooding once disturbed. From aerial photographs, one can distinctly observe Malawi's boundary with its neighbours, the more open fields being on the Malawian side.

2.7.3 Illegal Charcoal Production

The Africa Report (2013) noted that charcoal production is a common and disturbing feature on customary land forests where unregulated production of charcoal is taking place on an unprecedented scale. It is accepted that charcoal is a convenient form of energy for domestic use. However, it creates a problem when it is being produced from forest areas that cannot sustain the current production levels. The ultimate result includes degraded forest resources and a damaged environment. Alternative renewable sources are being explored but it is doubtful that they can replace charcoal, as the technologies are not affordable by the majority of users.

2.7.4 Foreign Trade

The Malawi Revenue Authority revealed in 2013 that approximately 80 per cent of timber leaves the country across the borders. Consequently, the timber plantations have been flooded with foreign buyers and sawyers who come from countries where stumpage costs are exorbitant. Foreigners from Somalia, Kenya, Mozambique, South Africa and Tanzania export timber to other countries without following normal channels that would have helped the Government to immensely benefit from the forest (Government of Malawi, 2013). The competition by foreign traders has resulted in an escalation of the market price of timber locally (Kambewa and Utila, 2008).

Although the private sector is encouraged to add value to timber and non-timber products, and to manage plantations, through contracts and lease agreements, the capacity to draw management plans for use by the private sector is rather limited due to the lack of expertise. Besides, the capacity to monitor felling, extraction and other forest operations is also relegated to poorly paid frontline staff, who are prone to being corrupted.

These shortfalls have resulted in a rather chaotic allocation of felling plots to private saw millers, thus, undermining forestry management principles. Debris from logging and sawing operations is left strewn all over, making access for the purpose of tree planting extremely hazardous. In fact, instead of tree planting occurring in the same year as felling, it is postponed for several years, by which time the weeds are overgrown and profuse. It appears that the current rapid felling rate has largely been dictated by market forces. Unfortunately, these market forces appear to be exogenous to Malawi and the benefits of this practice appear to accrue more to foreigners than to indigenous Malawians.

The Malawi Poverty Reduction Strategy Paper (2002) includes forestry development in the pro-poor growth sector that aims at economic growth for sustainable poverty reduction. The current buzzword in the forestry sector is “sustainable livelihoods”. However, when the local people do not see any direct benefits, they conjecture all sorts of ways to express their frustration. One way in which this has been manifested is through the setting of forests fires and through illegal

harvesting of trees. Fires reduce the value of wood as many stands have to be cut down before they are really mature.

2.7.5 Increased Rate of Deforestation

Kerr (2005) and other environmentalists describe deforestation in Malawi as one of the major threats to sustainable economic development. There is an increased rate of deforestation in Malawi's timber industry (Government of Malawi, 2010). Excessive pressure is experienced in some of the major forest plantations due to illegal exploitation of forest produce for timber, firewood, trade in forest products, such as charcoal. According to Kafakoma and Mataya (2009), within the value chain in Malawi, annual harvest reaches 600 hectares while replanting is only 400 hectares. This is mainly because there is enormous demand for timber on the export markets which offer high rents. Ironically, the production costs per cubic metre of the Malawi forests are close to USD20, and yet stumpage fee or rent approved by Government had, for a long time, remained static at approximately USD4 per cubic metre. Therefore, it is not surprising that the forest plantations in Malawi have been flooded with foreign buyers and sawyers who come from countries where stumpage costs are very high.

Previous research work by Hicks et. al. (2013) indicates situation nowhere in the world is plantation wood this cheap. Since foreigners have more money than the average Malawian, they are able to buy almost all the timber that is produced by portable saw millers, even before it is treated or kiln-dried. Timber is then exported in this form to neighbouring countries, such as South Africa, Mozambique, Tanzania, and Kenya. In these countries, the wood is further treated in order to add value and is re-exported at more lucrative prices to Iran, England, Italy and China. Competition by foreign traders has resulted in an escalation in the market price of timber locally.

2.7.6 Lack of Funds for Forest Management

Luhanga (2009) noted that the low budgetary allocations by the Government to the Forestry Department had meant that there is virtually very little investment in forest management taking place in the plantations. Regrettably, the rate of harvesting far exceeds that of replanting. Revenue is collected from sales of trees, fuel wood, as well as rentals and permits issued to plantation operators the loggers. It is estimated for the 2009/2010 financial year that the financial requirements to run the Viphya Plantation is MK220 million (USD1.6 million) and yet the whole

Department of Forestry budget is MK67 million (USD0.48 million) (Kafakoma and Mataya, 2009).

The Africa Report (2013) analysed the report by Malawi's Auditor General, which revealed that the Government lost at least MK344 million (about USD2.06 million) due to uncollected revenue, including sales of harvested wood, rentals, permits and fuel wood, from operators in the forest plantations. The annual budgetary allocation for Government operations in these plantations has not been consistent with planned expenditure to the extent that only about 50 per cent of the budget is approved and less than that is actually disbursed. Of the disbursed funds, almost 80 per cent is for personal emoluments, leaving very little for operations.

2.7.7 HIV and AIDS Pandemic

Luhanga (2009) conceded that the impact of HIV/AIDS in the forestry sector of Malawi cannot be underestimated. The forestry profession is basically male-dominated, and it is mainly men are involved in felling trees, extraction, sawing and transportation to the roadside. Timber sawing, using portable mills, takes the men away from their wives for long periods of time. All this work involves heavy manual activity. Luhanga (2009) observed that the working men may indulge in sexual activities with commercial sex workers. This renders them vulnerable to sexually transmitted diseases, including HIV and AIDS. Fatalities arising from HIV and AIDS-related infections have reduced the number of skilled workers available for timber production.

2.8 Chapter Summary

This chapter explored the timber industry in Malawi, and it focused on several factors relating to forest categories, the timber products, timber markets, timber trade challenges. The chapter highlights the main challenges as foreign trade, deforestation, poor funding for forest management and the HIV and AIDS pandemic.

CHAPTER THREE

METHODOLOGY

3.0 Chapter Overview

This chapter looks at the data definition and collection methods, data manipulation and the data analysis technique.

3.1 Introduction

The desk research involved key-word searches using google and searches of relevant web sites, including Malawi Government web sites. All the source material accessed was indexed and notes made on the information relevant for this study. Materials accessed included all the relevant policies, the Malawi Revenue Authority Reports and recent research on tax policy in Malawi.

The fieldwork involved questionnaires with key stakeholders in the Government and representatives of official timber producing companies. Statistical data was collected from National Statistical Office. A combination of both qualitative and quantitative analysis was found to be the most suitable for this study. Questionnaires were developed to ensure coverage of key topics and comparability of responses while enabling respondents to give detailed answers. The questionnaires were written in English. Survey research involves a comprehensive look over, collecting, analyzing and interpreting data that represents phenomena to determine the components, conditions or relationship that exist (Nenty, 2008), hence the process or trends that are developing under the tenability of a research hypothesis or a research question.

3.2 Sample

The target population was Government Officials, especially those in the Ministries of Trade and Industry, Ministry of Finance, Ministry of Environment and Climate Change, Ministry of Economic Planning and Development, the Malawi Revenue Authority, the Department of Forestry, and the Malawi Confederation Chambers of Commerce and Industry. Only one official

was selected for the study from each institution. This was so due to the fact that per department in each institution only about two officials can be dedicated to have responsibilities relating to the timber industry in Malawi. More information was also collected from various timber producers and exporters.

With about 29 timber companies in Malawi, a sample of 20 companies will be used to collect data. This sample represents about 68 per cent of the whole industry. According to Polit and Beck (2006), qualitative studies do not require large samples.

3.3 Instrumentation

The study used questionnaires as instruments for collecting data. There were two separate questionnaires; one was for the Government officials and the other for the timber producers and sellers. The questionnaire was structured in a simple one-section manner, with respondents not required to reveal their identity and other personal information. Some questions were closed ended, with others being open ended.

3.4 Data Collection

The researcher arranged with both parties of the sample to visit and administer the questionnaires at times that were convenient for the Government Officials and the producers plus sellers. The researcher contacted the respondents by telephone to determine the mode of response. Those who preferred a soft copy email response were emailed the questionnaires, and feedback was given within the agreed period of two weeks. For those who opted for the hard copies, the researcher went to collect the completed questionnaires after two weeks from their respective habitats. The return rate for the questionnaires was 70 per cent for Government officials and 75 percent for producers. Particular attention on the questionnaires was given to the rational for the applied export tax. Comments were invited from the producers and sellers on how the Government can make its policies more effective and efficient.

CHAPTER FOUR

LITERATURE REVIEW

4.0 Chapter Overview

This chapter looks at the traditional and modern theories related to export taxes. It examines empirical research from various country studies and research on the Malawian timber industry.

4.1 Introduction

It is believed that export taxes maybe desirous to trade and economic policy, but their use should be done to ensure that they do not have a negative impact on the economy (WTO, 2005). The reason is that the global trading system expects free flow of trade of goods and factors of production under perfect competition in an environment where forces of demand and supply are major determinants in the international market.

4.2 Traditional Theory

In a review by Schumacher (2012) on the classical trade theory by Adam Smith done in 1776, it was concluded that mutual benefit in trade would only exist if a country specializes in the production of the good it has an absolute advantage and then export such goods to a country that is not efficient in the production of that good. In return, that country should import goods which it cannot efficiently produce. However, Ricardo (1817) took an unusual view to Smith's views. He argued that, by employing the labour theory of value to measure the cost of production ascertained there is still a basis for mutually beneficial trade, even if one country had an absolute advantage in both commodities (Markusen et. al. 1995). In 1817, Ricardo introduced the „Theory of Comparative Advantage“, which has remained one of the most important and, probably, still unchallenged laws in economics with many practical applications.

From the analysis by Leamer (1995) and supported by Markusen et. al. (1995), when it comes to the applications which formed the Heckscher-Ohlin (H-O) model, the world in which

comparative advantage, hence, trade, is to be determined, by not only national differences in factor endowments, but also by the differences in factor intensities of the traded commodities. The model assumes equal tastes and equal income distribution among nations. It further argues that the difference in the supply of various factors of production give rise to different autarkic factor prices which generate different production costs for different goods in different nations (Salvatore, 2004).

4.3 Theoretical Framework

Abba Lerner's Symmetry Theorem (1936) was based on the idea that an Export Tax can act symmetrically to an Import Tax. This enabled the analysis of this policy tool's effects against empirical evidence. The theory of Export Taxes has been expanded to take into account multi-good, multi-country models and the effects of imperfect competition. The following subsection explores the related theories.

4.3.1 Lerner's Symmetry Theorem

Lerner's Symmetry Theorem (1936) revealed that an *ad valorem* duty on exports in a two-country two-product static long term equilibrium market acts in a symmetric way to an *ad valorem* duty on imports. With the assumptions that trade between the countries is in equilibrium, it is assumed that the Lerner's Symmetry Theorem applies in delimited circumstances and, therefore, it cannot fully be applied to the real effects of export taxes. Its value, in particular, is that it focuses on relative instead of absolute prices.

Lerner (1936) used a scenario where he depicted two countries, say country *e* (Botswana) and country *g* (South Africa) and two goods *E* and *G* being produced by these countries, respectively, under conditions of perfect competition. He further noted that this would also happen in the absence of transport costs, tariffs or capital movements between the countries. Thus, the equilibrium of international trade between the countries was shown in figure 1.

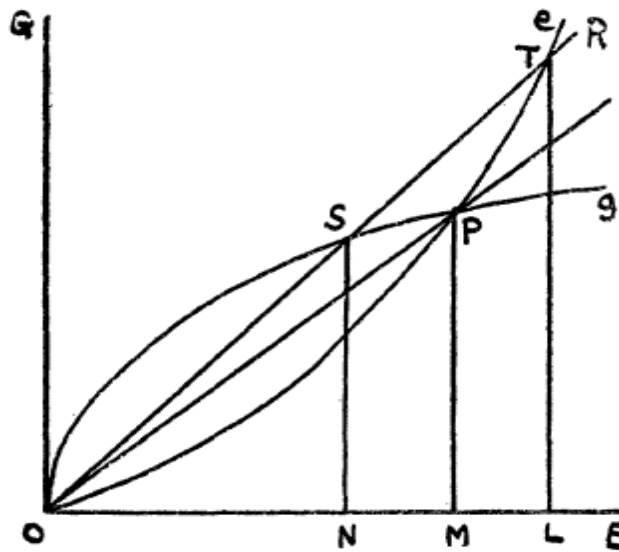


Fig. 1.

Figure 1: Lerner's Equilibrium of International Trade

Source: AP Lerner (1936)

From figure 1, the x-axis measured quantities of the goods E and the y-axis measured quantities of goods G . Lerner asserted that any radiant from the origin (like OR) would indicate a rate at which E can be exchanged for G . The curves e and g are said to be the offer curves of the countries. They indicated the amount of trade the residents of one country are willing to do with the other country at each rate of exchange or price. If the supply of goods E in relation to goods G were to be greater than the demand, then the rate of exchange becomes less favorable for Botswana. The radiant will move to the right to signify that a larger amount of goods E must be exchanged for each unit of goods G . Equilibrium position is reached when the radiant passes through the point where the offer curves intersect. Furthermore, S coincides with T at point P where x-axis OM of E is exchanged for y-axis MP of G . Therefore, because both countries are willing to do just the same amount of trade, the supply is equal to the demand. Lerner continued to assert that with the imposition of a tax, whether on imports or on exports, it will have the effect of making the price of goods for traders in Botswana different from that of South African traders.

Its amplitude was to be determined by the size of the tax and independent of whether they are imposed on imports or exports.

At point U where R_e cuts the e curve shows the supply of goods E and the demand for goods G by Botswana traders. At point C where R_g cuts the g curve shows us the supply of goods G and the demand for goods E by South African traders. Lerner saw it clear that the supply and demand given will never equal each other. However, he also saw that as the pencil is swung round in either direction with points on different radiants, they can never coincide. Furthermore, Lerner asserted that if a right angle CTU was drawn parallel to and in the same sense as the axes, its upper extremity C lies at the point where the g curve is cut by (R_g) and its right hand extremity U would lie at the point where the e curve is cut by (R_e) . Its vertical arm CT will measure the excess in the supply of goods G over its demand and its horizontal arm TU will measure the excess of the supply of goods E over its demand. The inability to find the equilibrium position where supply equals demand was due to the leaving out of the demand by the government from the proceeds of the tax.

Consider being given the size of the tax and the proportion in which the government consumes goods E and goods G . The equilibrium position can be found by swinging the pencil round until the ratio between the length of the arms of the right angle CT corresponds to the ratio in which the government consumes goods G and goods E . Lerner (1936) thus asserted that the government demand for CT of goods G and TU of goods E meets the excess of supply by the traders. In this case, supply is equal to demand and we obtain the equilibrium. Considering if the pencil were swung slightly more towards the right, then the right angle would become flatter and wider. This would make the same government demand be an excess of the supply of goods E over the demand and an excess of the demand for goods G over its supply. Goods E would become cheaper as compared to goods G , hence, the pencil would swing back again towards the left to the equilibrium position.

In limited cases, where the government consumes only goods E , the right angle reduces to a horizontal line which traverses the pencil and meets the offer curves. In cases where only G is consumed by the government, it becomes a vertical line.

From this examination of the Lerner Theorem, it is clear that whether the tax is collected in goods G or in goods E , it makes no difference since this plays no part in the determination of the equilibrium position.

McKinnon (1996) further expanded the theory by imposing that this symmetry can also be expressed so that for every *ad valorem* import duty there is an equal export duty that causes identical equilibrium production and consumption. He asserted that this can be applied to trade with three commodities. For example, he showed that with two countries and three products where a country imports two and exports one product, an import duty to one product is equal to an export duty to the exported product. However, research work done by Ray (1975) has demonstrated that, on the contrary, the findings of Lerner and McKinnon were not robust in imperfect competition cases. He asserted that even though export and import duties result in the same relative prices, the effects of imperfect competition and changing terms of trade can cause the outcome to differ.

Findings by Blanchard (2005), adding on to the Lerner Theorem, placed three requirements on the materialization of the Symmetry Theorem. First was that the collected export tax is distributed to the consumers in the country. This had to do with the fact that when trade is imbalanced the revenues from export taxes will differ from those collected from import duties. As long as the government distributes the revenue to the consumers, or uses the revenue in a manner identical to the consumers, the symmetry holds. The second was that the export tax and import duties are not prohibitive to trade. This was already hypothesized in the original theorem that the symmetrical effects only apply in a situation where there is trade. Third was that an imbalance of trade between countries is not dependent on whether an export or an import tax is used. This proved difficult to fulfill because of investments between countries. Blanchard further stated that whenever an export or an import tax is used, it has an effect on the profits collected by foreign investors in the country. This is so because both relative and absolute local prices affect revenues from investments. The effects of an export tax differ in terms of absolute local prices from Import Duties. Thus, the balance of trade between countries is rocked depending on the instrument used (Blanchard 2005).

4.4 Economic Effects of Export Tax

Solleder (2013) highlighted the fact that the effects of an export tax can be separated based on whether the setting country is a small or a large player in the international exports of the good. Normally, for a small country like Malawi, which does not even have a range of tradable goods, the effects of an export tax are unequivocally negative. On the other hand, a large country such as South Africa may benefit from an export tax through an improvement in its terms of trade.

Makela (2009) divided the effects of export taxes into welfare-effects and distributional effects. The welfare effects were defined as the effects of the export tax on the exporting country, the importing country, and aggregate welfare. This effect is formed by the effects on the countries terms of trade and efficiency. The terms of trade effect of an export tax may be ambiguous but the efficiency effect is always negative. The distributional effects were defined as the redistribution of revenues to different sectors inside the countries.

4.4.1 Export Tax Effect in Trade Policy Analysis

Trade policy analyses, especially those of export taxes, can be approached on an *ex-ante* and *ex-post* approach. Solleder (2013) stated that *ex-ante* analyses generally imply use of partial equilibrium or computable general equilibrium (CGE) models, while *ex-post* approaches usually include gravity models and other econometric estimations, as well as case studies.

The effect of an export tax in partial equilibrium setting can be depicted in two scenarios. The first one illustrates the effect of the export tax on a product without market power in Figure 3.

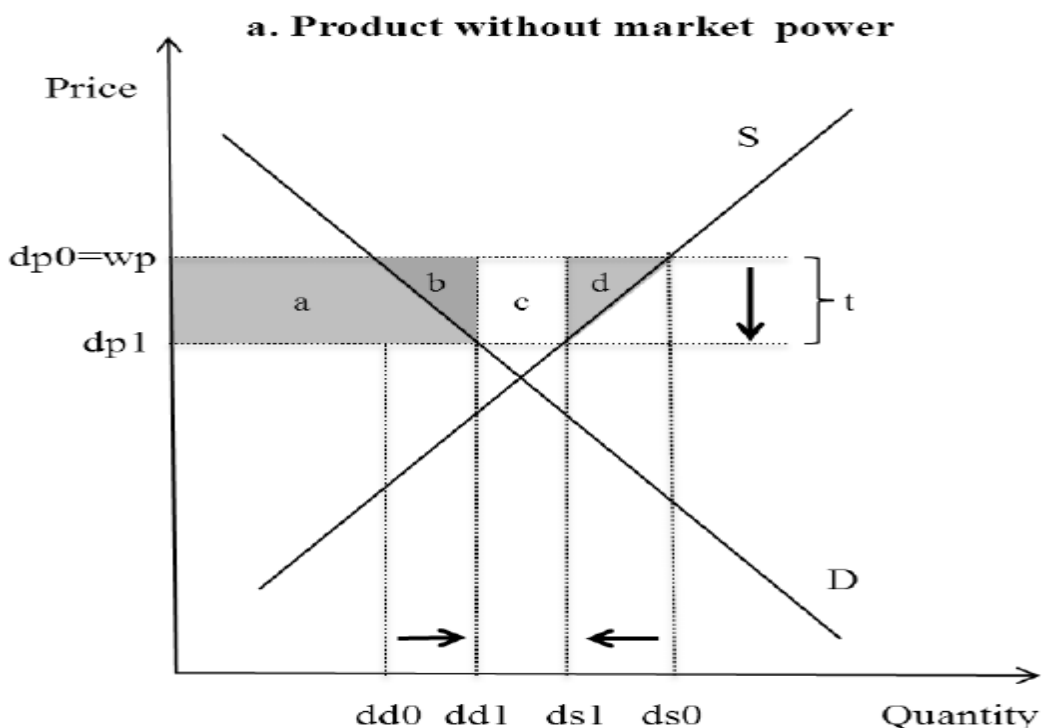


Figure 3: Partial Equilibrium (Product without market power)

Source: Solleder (2013).

According to Solleder (2013), a case of a product without market power is set with the initial level of domestic price at (dp_0) is equal to the world price (w_p). At this price, local consumers buy dd_0 units, while producers supply ds_0 units. Supply is greater than demand ($ds_0 > dd_0$) with the difference being exported ($ds_0 - dd_0$). With the imposition of an export tax, producers are forced to reduce their factory price to the level dp_1 , so that the world price, after tax, remains equal the world price ($w_p = dp_1 + t$) since they do not have market power. The domestic price is lower than the world price. At a lower domestic price, consumers buy more (dd_1) while producers supply less than before tax (ds_1). Export is also reduced ($ds_1 - dd_1$). Solleder further argued that domestic consumers benefit from the imposition of the export tax as they consume more ($dd_1 > dd_0$) at a lower price ($dp_1 > dp_0$) since consumer surplus increased by area (a). Domestic producers lose because they supply less ($ds_1 < ds_0$) at a lower price ($dp_1 < dp_0$), resulting in their surplus reduced by area (a+b+c+d). Government revenues are increased and equal to area

(c). The units of exports ($ds_1 - dd_1$) are multiplied by the world price (w_p) and by tax rate. Total domestic welfare falls due to the deadweight loss denoted by area ($b+d$). In this regard, it is generally deduced that taxation of a product without market power can make sense only if distributional effects are desirable. Naturally, policy makers value public revenues or the welfare of consumers more than the welfare of producers, or if public policy benefits of Export Taxes, such as food security or environmental protection, outweigh economic losses (Solleder, 2013). Further analysis will take the form of a product where there is market power. On the Figure 4 the partial equilibrium graph is denoted.

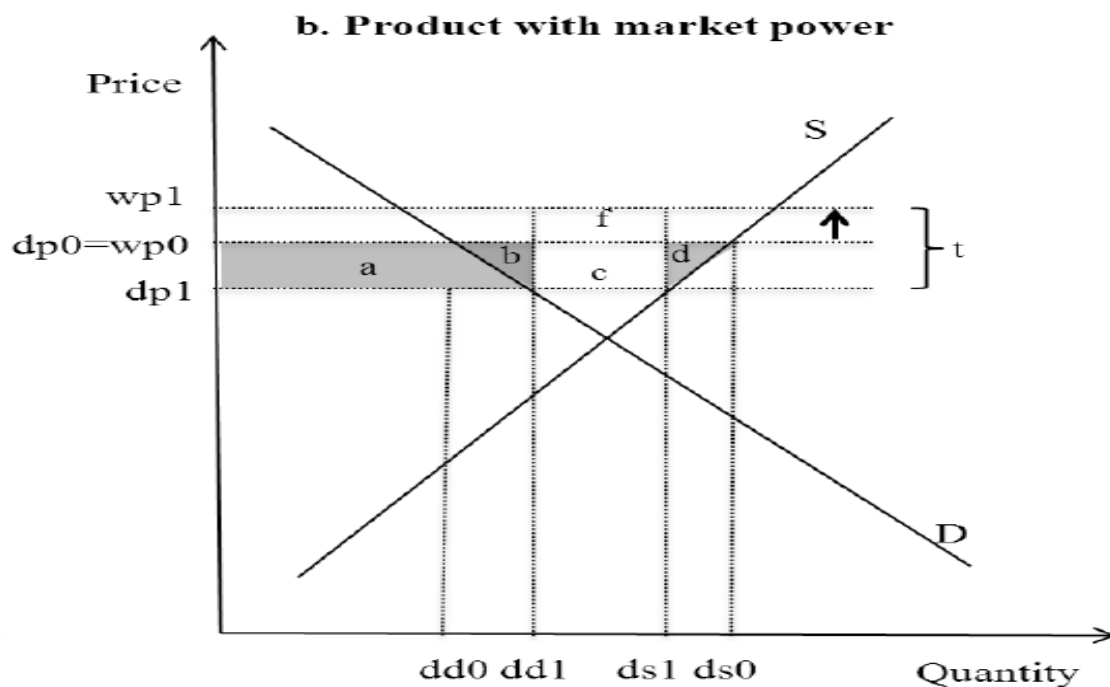


Figure 4: Partial Equilibrium (Product with market power)

Source: Solleder (2013).

Solleder (2013) stated that as a product enjoys some market power, changes in its production at a national level triggers changes in its world price. A product may have market power because either its production is geographically concentrated in a few countries, or because it faces a low price elasticity of demand and substitution.

The impact of export taxes on a product with market power is different from the one without because the change in domestic production of this good affects its world price. This creates a

welfare gain through terms of trade effect. With imposition of a tax, producers are more willing to sell at home, since domestic sales are not taxed. This reduction in exports leads to an increase in the world price as the good has some market power. Hence, producers start supplying more to foreign markets, until the moment when they are indifferent between selling an extra unit at home market at the domestic price (dp_1) or at foreign markets at the world price (wp_1). Solleder (2013) further argued that when the domestic price is equal to the new world price minus tax ($dp_1 = wp_1 - t$), and with the imposition of an export tax, domestic consumers will buy more (dd_1) at a lower price (dp_1), and the consumer surplus is increased by area (a).

Solleder (2013) was of the view that the direction of the effect is identical to the case of a product without market power, but the magnitude can be smaller and, in some cases, negligible, especially in situations where the world demand for the taxed product is price inelastic. Eventually, total domestic production is reduced and the loss in producer surplus is measured by area (a+b+c+d). Government revenues are now represented by the area c+f. This area is larger than area (c) in the previous calculations due to area (f), denoting improvement in national terms of trade as increase in world price from wp_0 to wp_1 . If tax revenues and terms of trade gains (c+f) exceed the deadweight loss (b+d), then the policy leads to an increase in total domestic welfare.

Williamson (2011), just like Solleder, was of the opinion that there are second order effects on the countries importing taxed commodity. In cases where tax changes terms of trade, importing countries lose for two reasons: first, their imports are more costly. Second, their industries that use the taxed good as inputs are less competitive than industries located in the country imposing export tax. Therefore, in the extreme case, export taxes can induce the relocation of production. In an article by Grossman (2012), there is convergence of analysis with that of Solleder, showing that if a tax imposing country has tax agreements with other countries, specifying lower or zero rate taxes among members of the agreement, the welfare changes in the partner country are similar to the domestic effects. Consumers of the commodity in focus, final buyers or downstream processing industries, will gain because they have access to the product tax free, while producers will lose due to tougher competition from abroad.

4.6 Export Taxes and Global Trade Policy

According to Makela (2009), the effects of trade liberalization are, by no means, unambiguous. However, there have been extensive studies on the role of strategic trade policy in the case of perfectly or imperfectly competitive industries and economies of scale. The considerations are very relevant in the case of real world policies. It is worth studying how trade policy, in particular, export policy might affect the welfare and competitiveness of a country's industries.

The pioneering work on this matter was done by Helpman and Krugman (1989). They argued that in the cases of a perfectly competitive market, an export tax has a welfare-improving effect while a subsidy deteriorates welfare. The welfare improving effects of an export tax are very much reliant on the competitiveness of a domestic industry (Makela, 2009). In a case where the foreign industry is perfectly competitive we see that the welfare improving effect of an export tax can be achieved by monopolizing the particular industry concerned.

On the other hand, the World Trade Organization adopts an asymmetric approach to the treatment of exports and imports (COMESA, 2014). The WTO does not prohibit the use of export taxes and considers export taxes as a legitimate trade policy instrument at the disposal of its Members. Surprisingly, the General Agreement on Tariffs and Trade (GATT), including its Schedule of Concessions is silent on the issue of export taxes, and only cover import duties and charges related to importation, which are treated as Technical Barriers to Trade (TBTs).

In spite of this position in the WTO rules, interest in export taxes has intensified within the WTO (COMESA, 2014). COMESA further reports that the European Commission (EC), and several developed countries, advocate for discipline on export restrictions. However, some countries, like Switzerland, want an outright ban, but with the standard WTO flexibility for developing countries. The general consensus is that there must be some form of discipline to ensure that importing countries are able to get the supplies they need from the global market (COMESA, 2014).

Given that export taxes currently exist beyond the realm of the WTO rules, TRALAC (2014) research shows that some WTO Members have taken matters into their own hands. The EC is

seeking the removal of export taxes through its FTAs and bilateral agreements, which prohibit the use of the taxes. In addition, the WTO is using accession agreements to commit new Members to reduce or avoid export taxes. Interestingly, some Members have accepted restrictions on export taxes as part of their accession protocols, for instance, China, Mongolia, Saudi Arabia, Ukraine and Vietnam.

4.7 Empirical Literature

Several studies have been conducted that look at issues concerning export taxes in different countries. This study will look at three main cases relevant to the current focus. The first case is on the environmental effects; the second on infant industry protection; and the last on income distribution effects.

4.7.1 Environmental Effects of Export Taxes on the Forest Products in Indonesia

First the study looked at the environmental case studies on export taxes, by examining the case of Indonesia. According to Brann (2002), in Indonesia, about 80 products were affected by export taxes until 1998. Solleder (2013) noted that the export taxes were levied on the following products: forestry products; agricultural products, such as crude palm oil and coconut oil; and mining and metal products. Most products were levied an *ad valorem* export tax of 30 per cent (scheduled fell to 10 per cent by 2000). Specific export taxes imposed on raw/split rattan and logs reached a tariff equivalent rate of 500 per cent and 4,000 per cent respectively (WTO, 1998).

It was the finding of Solleder (2013) that the imposition of export restrictions on sawn timber has promoted the development of plywood factories in Indonesia, and led to plywood exports. However, there have also been some negative side effects. First, low prices of logs have encouraged inefficient logging practices and inefficient wood processing. Second, powerful export cartels have emerged in wood and wood products to capture the economic rents of the restrictions. Third, low log prices have discouraged investments towards the protection and sustainable development of timber.

4.7.2 Infant Industry Protection in Pakistan and Russia

The study examined the infant industry protection case studies on export taxes by first looking at the case of the cotton and yarn markets in Pakistan. Bonarriva (2009) observed that between 1988 and 1995, the Government of Pakistan imposed an export tax on raw cotton, with the objective of encouraging the development of the yarn cotton industry, a higher value-added industry. Darren Hudson and Don Ethridge (1999) studied how Pakistan utilized an export tax on raw cotton fibre. They asserted that the justification for the export tax was the government's wish to develop the country's yarn industry, which used cotton as a primary input. In their study, cost of cotton represented about 50 per cent of the total variable costs in producing yarn. The export tax imposed was used to reserve a larger quantity of cotton for the country's internal use while lowering its price to domestic yarn producers.

In the study, the tax was based on a two-price system. They established the first price to be a benchmark price set periodically by the government, while the second price was a minimum export price which was set daily by a government committee using the benchmark price. The second price was always higher than the benchmark price and was highly correlated with the average world offer price of cotton.

In principle, it appears that the export tax achieved its purpose: the production and exports of yarn increased, while the exports of cotton decreased. At the same time, production of cotton increased at a slower rate than before. Hudson and Ethridge (1999) carried out an econometric simulation of the Pakistani cotton and yarn market, where both sectors were analyzed separately under two different scenarios: a scenario of free trade and the (true) scenario of export taxes. Their analysis of the Pakistani cotton and yarn sectors yielded some interesting results. According to Makela (2009), first of all, the export tax had a significant adverse impact on the cotton sector, as prices of raw cotton decreased even further inside the country. He further stated that the yarn sector of the country grew, but the contribution of the export tax on the growth, compared to the free trade scenario, was marginal at best.

There were two potential reasons for the lack of effectiveness of the export tax. Makela (2009) found out that, first, the demand for cotton in Pakistan was highly inelastic because, at least in the

short run, there was very little substitutability for cotton in the yarn producing sector. This meant that yarn spinning mills did not significantly alter their consumption decisions regarding changes in cotton prices. This suggests, as Hudson and Ethridge (1999) found out, that there was a strong correlation between the effectiveness of the export tax and the demand relationship between the raw product and processing sector. The second reason for the limited effectiveness of the export tax that Makela (2009) advanced was that yarn production is a globalized industry, with high volumes and low margins. Pakistan exported a large portion of its yarn production at the below market price, with the quantities virtually moving from 30 per cent to 70 per cent.

While Pakistan protected its yarn spinners from global competition, by effectively subsidizing cotton for them, the rest of the world was making cost-saving improvements and modernizations in production facilities. The below market price that Pakistan's yarn producers paid for their cotton acted as a drag on their own modernization and formation of true competitiveness. The conclusion from Makela (2009) was, therefore, that the growth that the Pakistan yarn industry was achieved through price subsidies. However, it only required a policy shift to achieve the same by encouraging free market competition and investments into the spinning industry.

Another case of infant industry protection and world competitiveness is that of the Russian forest industry. Makela (2009) examined the theories of competitiveness and export taxes to the Russian forest industry. The aim of the study was to provide a well-rounded picture of the Russian forest industry and to answer questions about commodity competitiveness and how export taxes affect its competitiveness and welfare. The study further looked at the global forest sector, its politics, and Russia's role in the globe. In this regard, the Russian forest sector was found to be competitive, primarily in products with low added value. In this regard, its findings were that Russia was a major world exporter of industrial round wood and, hence, could benefit from a relatively high export tax on round wood exports. Regrettably, the taxes suggested by officials went even higher than this and, eventually, were in effect, prohibitive to trade. Russia faced a more concentrated world demand for its round wood exports, but also operated in a more concentrated supplier market.

4.7.3 Income Distribution Effects of Export Taxes on Rice in Thailand and Cashew Nuts in Mozambique

Makela (2009) reported that Thailand imposed export taxes on rice until 1986. However, this policy decision was subsequently abandoned because of, firstly, their negative impact on the income of people living in rural areas and, secondly, the emergence of new forms of tax revenue with the development of a better administration. Nevertheless, a debate over reintroducing an export tax had often been reopened, especially after the economic crisis in Thailand in 1997. The citizens who wanted the export tax reintroduced on rice backed their proposal with several arguments, which included the need to contain inflationary pressures originating from currency depreciation, and increase foreign currency earnings, given Thailand's market power in international markets. Thailand's exports of rice accounted for 26 per cent of world trade in rice from 1975 to 1998. The other compelling reason was that the export tax could have helped to alleviate the strain on the poorer segments of the population, by reducing the price of rice, a staple commodity, and the export tax could also bring in government revenue.

However, a study by Warr (2001) on the impact of an imposition of an export tax on rice in Thailand highlighted the possibility of the rural poor and the poorest urban quartile of the population being losers, derived from the decline in the return to unskilled workers. Piermartini (2004) hinted that numerical simulations suggested that for the poorest strata of the population, the gain in terms of purchasing power due to the lower price of rice, an essential commodity, does not compensate this income loss. On the other hand, the urban rich and the richest rural quartile would gain, in terms of both income and purchasing power. Piermartini (2004) stated that the positive income effect results from the wage increase for skilled workers and increased returns to non-agricultural capital, which is a major source of income for rich urban households. The richest rural quartile could also gain because of the relatively higher importance of skilled labour as source of income *vis-à-vis* the rural poor.

Another case study examining the income distribution effects of export taxes is the cashew nut sector in Mozambique. McMillan et. al. (2002) studied the trade liberalization of the cashew nut sector in Mozambique. Makela (2009) noted that cashew nut production had been a strictly moderated sector in Mozambique, until the Government engaged in negotiations with the World

Bank to receive assistance. Some of the requirements that the World Bank presented to Mozambique, in order for it to receive loans, were that Mozambique privatize its economically unviable cashew processing sector and remove export taxes on cashew nuts. Until then, the processing sector had been run by a Government monopoly, and producer prices had also been fixed by the Government. Thus, initially, the Government privatized the processing sector, and a few years later it phased out the export taxes.

There were studies, including one by Welch (2003), which analysed the effects of trade liberalization on different agents in the cashew nut industry in Mozambique, especially to find out why trade liberalization did not work out the way it was planned. The important insight that emerged was that market structure, that is both domestic and global, has a huge influence on the effects of trade liberalization or trade regulation. The World Bank's rationale for removing trade restrictions on raw cashews was based on the economic theories presented earlier, namely, that the artificial trade restrictions caused efficiency losses because production inputs were directed towards an uncompetitive processing sector. In addition to this, the export taxes hurt the country's cashew farmers, a poor lot to begin with, who were forced to sell their products to domestic processors at artificially low prices.

McMillan et. al. (2002) looked at the Mozambique cashew sector, by tracking the welfare of five distinct groups, namely, raw cashew producers (farmers); traders and other intermediaries; owners of the cashew processing factories; workers employed in the factories; and the government. The total utility of the cashew sector could be divided into the utilities of these five groups. The researchers paid particular attention to the farmers, since they were supposed to be the primary recipients of benefits from trade liberalization. The actual effects of trade liberalization could be further divided into the export quantity effect, terms-of-trade effect, unemployment effect, and trader's margin effect. The last three of these were to react adversely in the short run, but the export quantity was, by conventional economic theory, supposed to make up for this.

By using data of the actual effects and comparing them with how trade would have turned out if the export restrictions continued to be in place, McMillan et. al. (2002) came to the conclusion

that the export quantity rise and the welfare gain to the Mozambique farmers fell far short of what was expected. The reasons for this “failure” of the free markets can be found in the structure of the domestic market, the structure of the global market and the country’s policies’ credibility, or lack of appropriate policies. Essentially, it was found that cashew farmers had very little market power in Mozambique. Cashew farmers generally had access to only one intermediary trader, who they would sell their crop to. These intermediaries needed a license to work, which acted as barrier to entry.

Makela (2009) reported that after the export ban was removed, the number of traders somewhat increased. Unlicensed traders also entered the market and gained a competitive advantage by not paying taxes. However, this increase did not much increase the market power of the farmer. Furthermore, exports of raw cashews were also under license, and there were only eight companies in the country that exported raw cashews. Makela (2009) concluded that domestic buyers for raw cashews had vast oligopsony power, and because of licensing costs and informational asymmetries this oligopsony power was not really diminished by trade liberalization.

Secondly, the global market for raw cashews was far more concentrated than the market for processed cashew. Thirdly, the trade liberalization had a massive adverse effect on the country’s processing industry. In effect 10,000 people in processing lost their jobs. In the calculations by the World Bank, these people were expected to be employed elsewhere but, perhaps, because workers did not believe in the longevity of trade liberalization, they refused to employ themselves. The government was not able to credibly commit to trade liberalization and, thus, workers stayed passive. Thus, Makela (2009) concluded that the case of Mozambique did not study the effects of instituting export restriction, but rather removing them.

4.7.4 Review of the Efficacy of Export Tax Policy in Malawi

A look at the local scene shows the following studies to have touched on issues of export tax policy. Kambewa and Utila (2008) conducted a study on timber as Malawi’s green gold. They describe the main opportunities and constraints facing Small and Medium Forest Entrepreneurs (SMFEs) in Malawi. The study draws on field-based interviews with entrepreneurs involved in four different forest product value chains, namely, plantation timber, cane furniture, fruit juice

and wood carving, and an analysis of national policies and how they affect SMFEs. Hence the study responds to a need expressed by Malawi's Forest Governance Learning Group to know more about how Government policies and legislation both within the forest sector, for instance, the Forest Policy and Forest Act, and beyond the forest sector, for instance, legislation on business and association registration, finance and export, support or constrain SMFEs.

The Malawi Government policies have highlighted how forest resources could do more to help reduce poverty through the development of small and medium forest enterprises (SMFEs). According to Kambewa and Utila (2008), the Malawi Government defines SMFEs as forest enterprises which employ from 5 to 100 workers. In Malawi, enterprises with less than 5 employees are classed as micro-enterprises; those with 5–20 employees are classed as small enterprises; and those with 21–100 are classed as medium enterprises. Any firm employing more than 100 workers is classed as a large enterprise. Estimates of Malawi's forest cover vary widely but the Department of Forestry suggested that in 2005 there was 3.4 million hectares of forest cover, which is 36.2 per cent of total land area, and 33,000 hectares was being deforested per year.

While Malawi has established some public and private forest plantations, these cover less than 3 per cent of the total forest area. Most of the forest area is natural forest, which is divided into forest reserves, national parks and game reserves, constituting about 47 per cent, and customary land which makes up approximately 50 per cent. Malawi possesses a range of SMFEs based on these forest resources which can be grouped into categories, such as timber producers, firewood and charcoal producers, non-timber forest product (NTFP) producers and suppliers of ecosystem services, including eco-tourism.

4.8 Chapter Summary

The chapter looked at several theories and concepts related to the export tax. It draws to the historical developments relating to establishment of these taxes and the new application. A number of studies have been conducted in the global perspective, but none has specifically looked at the export tax issue in the Malawian context per se.

CHAPTER FIVE

CASE STUDY DISCUSSION AND RESULTS

5.0 Chapter Overview

This chapter presents an in-depth analysis of the results and the outcomes derived from the survey. The return rate for the questionnaires was 70 per cent for the Government officials and 75 percent for producers/traders. The results were analyzed according to the research question.

5.1 Data from Questionnaires

The following Table 4 shows the data questionnaires pattern.

	Completed	Uncompleted
Government Official	7	3
Timber Producers/Traders	15	5
Total	22	8

Table 4: Data Questionnaires Pattern

Source: Author's Calculation.

A total of twenty-two completed questionnaires were collected from respondents. The seven Government Officials who completed the questionnaires were the Principal Secretary in the Ministry of Industry and Trade; the Deputy Director of Planning in the Ministry of Economic Planning and Development; the Director of Forestry; the Plantation Manager of Viphya Plantation; the Assistant Director of Environmental Affairs; the Customs Station Manager at the Mchinji Border; and the Acting Director of Revenue in the Ministry of Finance. The Government Officials who did not complete the questionnaires were the Commissioner of Customs at the Malawi Revenue Authority; the Executive Director of the Malawi Confederation of Chambers of Commerce and Industry; and Manager (Foreign Trade) at the Reserve Bank of Malawi.

For the Timber Producers, the fifteen that completed the questionnaires were Steel and Builders Merchants; Tikhu Investments; Shire Limited; Southern Timbers; the Timber and Logistics Corporation; International Timbers limited; RISA investments Services; Timber Export Africa Limited; Soche Timbers; JA Timbers International Limited; Raiply Limited; Timberland; Sterling Timber Limited; Kanots Timbers; and Viphya Timber Limited. The five that never responded were Chikata General Dealers Mnthandizi Timbers; Kawandama Hills Limited; Timber Millers Cooperatives Union; Mzimba Sawmills and Lizulu Timbers. On the basis of the above, the information was analyzed as follows:

5.1.1 Government Officials

The first part of the questions focused on whether the Government Officials knew about this trade policy instrument, its objectives and how the tax will be administered and imposed.

The Officials were introduced to the issue at hand and related them to the Government's policy position (export tax) with regards to the timber industry. The results showed that all the Government Officials are aware of the export tax. This brings a positive start to the analysis as the Officials' knowledge of the issue at hand. Further the official's knowledge of the export tax was lead to a personal explanation of what this tax is. The respondent's answers generally differed very slightly in definition terms or words, from the results, two respondents portrayed the export tax as a duty. The other two described export tax as a levy. Two other more respondents simply defined export tax as a tax, while one respondent described export tax as a fee. However, the individual definitions of the export tax conveyed a similar message about the use of the export tax in revenue generation and its use to support domestic value addition. Then the Officials were asked to explain the main official reasons for the tax imposition, based on their knowledge of the tax. The reasons and objectives behind this imposition are described by each respondent in different understandings. Four respondents claimed the objective of the export tax was to reduce the demand of Malawian timber by outsiders, by making it now more expensive with tax imposition. In turn, this will lead to local forest protection in fears of deforestation.

Two respondents reasoned that the export tax was imposed to encourage value addition of Malawi timber products. Then one respondent based the reasons for export tax to be mainly based on the revenue generation motive of the Government in order to find funding to rehabilitate the timber forests and find new forest protection initiatives. The main reason derived from the results as a cause for this tax imposition was for environmental protection of Malawian forests as they seemed to produce timber that attracted a lot of outside traders due to low purchase value. Lastly on this section of the question was for the respondents to mention how the tax will be charged and collected. The respondents all mentioned that the tax imposition was based on the value of the timber being exported. One respondent mentioned the *ad hoc* charge bases, claiming that if other measures are used, complications would arise in determining and measuring the tax to be imposed. The respondents pointed out that the export tax is collected at the border points by the Malawi Revenue Authority officials. Two respondents further highlighted that due to this established collection point, some scrupulous timber traders have been reported to have used undesignated cross border routes or channels, to avoid export tax payment at the official borders.

The second section of the questions focused on the performance of the export tax so far, Malawi's policy export tax options in relation to regional agreements and sustainability of the tax.

Three respondents who answered with uncertainty on how the policy has been achieved opted to say that the tax imposition effect needed further analysis to determine the gains and losses. Two respondents opted to say the tax imposition brought in a bag of mixed results and, hence, the whole essence of the tax imposition needs to be redefined. One respondent said there was partial achievement of the objectives as on the revenue generation side. A lot of revenue has been collected by the Government, but still more timber is being exported out of Malawi, putting into question the efficacy of the policy measure. One more respondent said no objectives have been achieved due to the continuous high timber harvest and trade out of Malawi. The main issue arising from the officials was that a further analysis had to be conducted to evaluate the gains and losses in a working paper study format. Views on the export tax imposition policy and the legal position regarding export taxes in the preferential trade arrangements, to which Malawi belongs,

revealed that the respondents were of the opinion that the export tax policy is not in contravention of any regional trade agreements (SADC or COMESA) that Malawi has signed.

They argue that this is so since Malawi is protecting its domestic industry, by trying to promote value addition and environmental protection. Two respondents pointed out that the Ministry of Trade and Industry consulted the regional bodies and an agreement was reached prior to the imposition of the export tax. Furthermore, on how long the export tax will be imposed, the officials had no evidence as to the defined timeframe within which this policy will exist. All of the respondents pointed out that an analysis of the whole gains and losses from this exercise should be conducted first, then a concluding policy action or measure which is sustainable, can be taken by the Government.

5.1.2 Analysis

The majority of the Government Officials indicated that they have knowledge of export taxes being imposed on the timber trade. Furthermore, when the officials were asked to give reasons and objectives for the imposition of such a tax, their reasons were the need for ensuring value addition and, hence, promote local industry, and environmental protection. This suggests that these were the main reasons driving the imposition of the export tax. It also suggests that the objectives for this policy decision are genuine, as they conform to justifiable reason for export tax imposition under trade bodies, like World Trade Organization and the Regional Economic Communities' trade protocols.

The Officials seemed to be uncertain concerning whether the objectives are being achieved, but revealed that the revenues generated from the export tax had indeed risen over the period. The Government officials suggested a compact analysis of the industry with the export tax imposition, to determine if the effect is in line with the set objectives. This is in line with the notion of establishing the extent to which the application of the export tax on timber products has achieved the policy targets, and how much policy space the Government has got for future application of the trade policy tool.

The Government Officials were given an opportunity to justify the policy position in relation to the signed trade agreements in various regional bodies, to which Malawi is a member. The respondents' views looking at the results were seemingly aligned with justifying the policy as supported by the notion of protection of the infant industry. This was further inquired with the research objective, of finding out the rationale by the Malawi Government for imposing export tax on timber products, and whether that was done in line with provisions under various protocols and legal instruments.

Most of the Government officials do not know the timeframe for the implementation of the export tax policy. They suggested that the way forward should be based on consultation and evaluation of the policy. The Officials' perspectives raise issues on the direction of this tax policy and where it will lead the country in general. These results require a quick evaluation to determine policy guidance and to see if the tax policy is going to benefit the country.

5.1.3 Timber Producers and Traders

The first section of the questions directed to the timber producers/traders were intended to find out the time period in which the individual was involved in the timber industry; if they produce for exports timber outside of Malawi, the used border exit points of timber; and if the producers have incurred export tax.

On the first question the respondents indicated various years of experience in the timber industry. Eight of the respondents had been in the timber industry for more than twenty years at (three for twenty one, two for twenty two, and two for twenty five years), with the most experienced being thirty years. For the others, two respondents had fifteen years of experience; three respondents had eight years of experience, while two respondents had five years of experience. With regards to knowing whether a producer is an export or not, nine producers indicated that they export timber, while six of the individuals responded that they do not export timber. On the destination of the timber, the respondents who export timber said to be exporting it to South Africa, Zambia, Tanzania, Kenya and China. The non-exporters said that they sell the timber to local buyers who determine their own destination for the timber.

Moving on to the frequency of the timber exporters, the respondents had various export frequencies. four producers export once a month, while the three export twice a month, and two export every three months. The other has a forty five day time frame, while another had a thirty day time frame. The timber exporters“ revealed that most of the timber is exported through the Mchinji, Songwe, Mwanza and Dedza borders. The results prove that proper channels are being followed in the timber trade.

The second section of the questions dealt with issues to deal with how the tax will be charged, the reason behind the tax, the effect of the tax on business and the how the producers believe the tax can be improved administratively.

Of the 15 respondents, 6 were both producers and exporters while 2 were exporters only, and the rest produce and sale locally. The results from the respondents who export timber indicated that the export tax was calculated based on the quantity of the timber (per log or cubic metres) and on the value of timber to be exported as a composite tax. Further on whether the reasons behind the tax were communicated to the producers, seven producers said they were not told the reason for the export tax imposition by the Government officials. Surprisingly, one respondent was informed on the reason of the tax policy by the officials. The respondent said that the export tax was introduced to help generate revenue for forestation programmes. However, it was not very clear as to who really communicated this information, because it was possible that the information came from the Department of Forestry official; or the Malawi revenue Authority official or, indeed, the Ministry of Trade and Industry official. Each one if these officials have their own perspectives about the benefits of the export tax.

With regard to the effect of the export tax on the producers business, the main response was that the export tax imposition had not affected the producers business, since the producers have since continued to experience the same harvest and trade of timber. Four respondents highlighted that Malawian timber still remains the cheapest in the region and customers are not deterred by the imposition of the export tax. The rent in Malawi is USD31 per cubic metre while in South Africa it is pegged at USD37 and in Tanzania it is at USD35 per cubic metre. Lastly, on how the producers/traders think the export tax administration can be improved, reveal that several aspects

can be considered to help improve this tax policy. These aspects are issues to deal with price adjustment of timber in Malawi to match world market prices. The other is to encourage local value addition so that raw timber planks are not exported, this can be done by using the collected revenue to set up loans for timber producers to access and use the funds to set up wood processing industries that make furniture, paper for export. The others suggest closing porous borders so that illegal trade through undesignated areas is stopped. This will help reduce corruption in the timber industry.

5.1.4 Analysis

Most producers of timber in Malawi produce to sell it as an export according to the results, except for a few from the sample who sell locally. Additionally, when asked to state how many times they export, most of the producers mentioned that they export timber at least once a month to South Africa, Zambia, Kenya and Tanzania. This suggests that most of the producers in the timber industry are in business to produce for the international market where they can fetch higher prices for their produce than in the domestic market. For instance, although Malawi's rent has been adjusted to USD31 cubic metre, from the USD4 per cubic metre, is still cheaper for the foreign markets if volumes are taken into consideration.

With regards to what the producers encounter with the imposed the export tax, most of the traders that use the normal routes comply in paying the tax. This suggests that most producers in the timber industry who export timber contribute to this export tax revenue generation.

The majority of the producers seemed to be not well informed by the officials on the objectives or reasons for the imposition of the export tax. This suggests that officials do little towards civic education of the stakeholders involved in their particular industry. As their partners in achieving their objectives, the officials should have properly explained the objectives and reasons for the tax to the producers. This can help address issues of tax avoidance, evasion and corruption. Producers seemed to not be affected by the imposition of the export tax, as such their business has not been affected by the tax. The results revealed that the value of timber in Malawi, even with the export tax levy, is still very attractively lower than other countries in the region and beyond. This suggests that the tax imposition does not do much harm to the business of the

producers and, if anything, the additional costs are easily passed on to the consumers in the countries of final destination.

Producers wanted to be informed of the objectives of the export tax and its benefits to the country. Some further suggested the tightening of borders and the further encouragement of value addition and local industrialisation programme in Malawi. This suggests that the producers are very keen to help in the Government's objectives of the imposition of the export tax.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.0 Conclusions

The study examined how the export tax works as a trade policy tool in Malawi. It took a specific look at the timber industry. The study was occasioned by the sudden imposition of export tax on timber trade by the Malawi Government, as a reactionary policy measure to increased timber trade out of Malawi, rather than a proactive trade policy undertaking. The objective of the study was to investigate the reasons why the export tax was imposed and whether it is, indeed, achieving the desired objectives.

Generally, export restrictions are used by policymakers to respond to a number of economic, social and political objectives, such as environmental protection, promotion of downstream industries, internal revenue generation, and preservation of reserves for future use. As Kim (2010) noted, social objectives, such as environmental protection, are among the most common policy objectives of export restrictions for these products. The timber cutting or processing procedures exacerbate the problems of deforestation and pollution. In some cases, export taxes on relevant products are applied to make it less profitable to continue timber harvesting or processing and thereby aim to reduce production.

Another consideration for policymakers implementing export restrictions is the promotion of local value adding processing industries. This occurs when foreign demand raises the price of raw materials, which may be too high for the local value adding industry. As the OECD (2010) highlighted, policymakers may also resort to using export restrictions in the case when processed products will have more value-added than raw materials used for those products. For conservation and environmental protection purposes, regulation on production itself, such as harvest limits, rather than of trade policy options, is another option. The production process causes deforestation and, therefore, even if products are consumed domestically or in a foreign market, the impact of the local environment remains unaffected.

Korinek and Kim (2009) noted that while many environmental tax schemes applied by several countries focus on taxation at the production level, it is not evident whether the implementation costs of production limitations are higher or lower than those of export restrictions. Evidence from the regulator,s experience shows that screening at the border could be easier to implement than inspecting production. However, illegal trade can weaken the effectiveness of these export restrictions. Illegal trade is always a serious problem because strategic raw materials are often relatively expensive on a cost per quantity basis at border points, hence, there are motives for exporting illegally to avoid export tax or quota limitations.

In view of the nature of the subject under consideration, the study was done in a broader manner to cover both aspects that affect the Government and the timber producers/traders. In this regard, the study used a descriptive explanatory design, employing both qualitative and quantitative methods, that involve use of questionnaires and document analysis. The following are, therefore, the major conclusions that can be drawn from the current study:

- (1) Export taxes offer an opportunity for the Malawi Government to collect revenue, thereby using this also to encourage value addition in the timber industry, by deliberately putting in place a policy that would reward promotion of global value chains. Furthermore, the justification of environmental protection from excessive timber harvest is important because extreme cutting of timber to sell to the lucrative foreign markets is degrading the local forest sector at an alarming rate. There are benefits accruing to the foreign traders and the countries of final destination, while the domestic market is deprived of economic benefits derived from the products. The officials of the Malawi Government see the objectives of the export tax as being difficult to measure at this point, mainly because the objectives for introducing the tax were not properly defined at the inception stage. While the policy tool is relatively new, it was used in a reactionary rather than proactive manner. Moreover, the funds collected this far have not yet been re-invested into the value addition initiative, by way of deliberately creating a timber producer loan fund or re-afforestation fund.. In view of this revelation, it may be worthwhile to have an indepth evaluation of the timber industry, before and after the imposition of the export tax, by way of collecting time series

data, in order to have a fair comparison as to whether the the policy objectives have been achieved or not.

- (2) The Government officials also highlighted the fact that the introduction of the export tax as a trade policy tool was justified on the basis of promoting value addition and local industry development, as well as environmental protection. This was due to the problems of high timber harvesting and exporting out of Malawi. The rapid harvest is mainly due to the export markets offering high rents, low budget allocation to the forestry management from the central Government, and border officials poorly keeping records. Therefore, the objective of protecting the environment seems to be far-fetched unless the Government introduces market rents and appropriate punitive measures for not undertaking re-forestation initiatives.
- (3) The Government officials are unable to determine when the trade policy measure will end. This further emphasizes the need for an evaluation of the trade policy to see the overall gains and losses, so as to determine a way forward on the best sustainable policy path.
- (4) The producers/traders of timber mainly produce and trade for exporting to the markets outside of Malawi, except for a few producers who sell locally. In this regard, the conclusion is that most of Malawi's timber crosses the borders, to be used outside of Malawi, especially in Zambia, Tanzania, South Africa, Kenya and Botswana. These foreign markets can be regulated properly if the Government took the initiatives to trate timber as one of the tradable goods capable of generating foreign exchange earnings for the country. However, this calls for proper investment in the forestry sector.
- (5) The producers of timber follow proper channnels of trade when it comes to exporting timber, as the respondents claimed to be using designated borders. Most of the producers have not seen the export tax as a disincentive to export. This is mainly because the Malawi timber is still selling at the price below the regional and international prices.

- (6) The producers revealed that they were not informed about the reason for the Government's decision to impose the export tax. In this regard, the Government needs to make efforts to educate the individuals involved in the objectives of the policy actions in order to have informed participants who would assist in ensuring that the policy objectives are attained. This will reduce corruption and tax avoidance, and increase compliance.
- (7) The producers seek more consultations and communication from the Government officials on decisions regarding the timber business. They support the idea of value addition, local industry development and the protection of the natural environment. They further want to assist the Government to curb illegal trade of timber out of Malawi.

The above conclusions based on the study can be summarised by the observations that Quick (2009) made, one of which was that the economic effects of export taxes or duties need to be assessed with regard to their objectives as well as their overall effects on the economies of the trading partners concerned. When the purpose of export taxes is essentially revenue, it may be asked whether alternative internal taxation measures could be equally effective and also less trade distortive. For instance, the Malawi Government has the opportunity to raise the stumpage fees to be in line with what is obtaining in other countries. However, Quick (2009), based on the analysis by Piermartini (2004), pointed out that in making such an assessment, it should be recognised that developing and least developed countries may need technical assistance to help modernise and improve the efficiency of the tax systems. On the other hand, if the objective is primarily the promotion of downstream industries, the economic implications vary according to the extent to which Malawi, as the exporting country, can affect the world market price of the taxed product. Nevertheless, it is clear that being a small economy, Malawi cannot affect the world market. But regardless whether or not there is such an effect, an export tax would create a differential between a price available to domestic processors and the price charged to foreign processors. This differential would provide a competitive advantage to domestic downstream processors. This could be justified by the "infant industry" argument, namely, to provide an initial incentive for the development of a processing industry. It would, in theory, also improve the overall terms of trade of Malawi, thereby benefiting the balance of payments. This is where more research needs to be done to avoid, among other things, the net welfare loss due to the fact that the export tax

penalises exporters of the taxed product while benefiting downstream processing industries. Protecting the domestic industry can also be a problem because it, often, tends to reduce incentive to become truly competitive internationally. In this sense, Quick (2009) concluded that an export tax acts as an implicit subsidy for the domestic processing industries, providing them with an artificial competitive advantage, both in the domestic markets of the country and in export markets. Therefore, proper policy mix is extremely important in achieving the intended objectives while minimising the undesirable effects.

6.1 Recommendations

The study proposes a number of trade policy options as they relate to the management and utilization of the forest products from the Viphya Plantation and other plantations and, thus, the timber industry. The Viphya Plantation alone extends to 53,000 hectares. 20,000 hectares of this resource is under long-term concession with Raiply. The concession agreement entails the granting of a felling license and full maintenance of the plantation by the concessionaire. The remaining areas are sold on a competitive bidding basis. The buyer has no obligation to maintain the forest, as a result it is in these areas that that corruption and tax avoidance occurs.

The low budgetary allocations by Government to the Department of Forestry had resulted in low levels of investment in forest management taking place in the plantations. As highlighted in the foregoing, total financial requirement for Viphya Plantation alone is USD1.6 million per year, yet the whole Department of Forestry had been allocated USD479,000 per year for all its operations. This situation has not changed, making management of the forests difficult and corruption being on the rise. Consequently, the rate of harvesting far exceeds that of replanting, since there is no proper means to monitor the timber harvests. Therefore, the study concludes that:

- (1) The Export taxes are, in theory, a good trade policy measure for generating revenue and, thus, also justified in terms of Malawi's international trade obligations for the protection of an infant industry, encouraging value addition and achieving industrial development for a fragile economy like Malawi. While the export taxes on timber should be maintained for a very clear defined timeframe, there is a need to ensure that there are clear objectives of the trade policy tool. Such objectives can include a combination of revenue generation for

purposes of environmental protection and promotion of value addition. Consequently, the pricing of timber or forestry products should reflect the true values, in order to ensure that the appropriate economic rent is obtained from the use of the natural resource.

- (2) While under the WTO there is no explicit prohibition of export taxes, the Malawi Government needs to exercise caution in terms of how it imposes the export tax on timber by, among other things, complying with regional trading arrangements, especially in SADC, which require notification of the parties about the decision and providing justification for the same.
- (3) In terms of the method of collection of the export tax, the Malawi Government should review for purposes of creating an efficient system that would promote compliance and ensure proper tracking of the revenues, as well as meeting the specified objectives. In this regard, rather than collecting the export taxes at the points of exit, that is at the designated borders, the Government should place the Malawi Revenue Authority officials at the sites where the timber is harvested, and make such sites as collection points.
- (4) The revenues that the Government collects through the export tax should be re-invested in re-forestation and forest plantations management. Some funds should also be invested into an Evaluation Study on the optimal export tax to be implemented and the overall effect of the export tax on Malawi's timber industry. This would be an extensive study, which will also look at the timber industry across the region and in the overseas markets, to understand fully the reasons for the large volumes of timber crossing the borders. This will assist the Government in the pricing policy and trade policy formulation, and even to determine options for export diversification. It is also important to understand how timber can be used as a great opportunity to increase Government revenue and foreign exchange earnings, through increased exports. Thus, an optimal tax value will be very effective.
- (5) There is need for the Government to increase, not only communication with the stakeholders and civic-educating them, but also consultations on the policy measures that it is proposing, in order to ensure buy-in and compliance when implementation takes effect.

6.2 Limitations of the Study

The study faced a number of limitations that may affect the validity and reliability of some of the analyses and conclusions. First of all, the sample size was limited, primarily because of time and financial constraints. In this regard, only a limited sample of respondents from the Government and producer and exporter sides was used. However, although this might have affected some of the generalized conclusions of the findings, the overall analysis does not depart from the true state of affairs on the ground as provided by literature. Secondly, there was a challenge with empirical literature, mainly due to lack of local studies which focus extensively on the timber industry in Malawi. This has resulted in the study using very little local literature back-up while relying on the conclusions of the studies undertaken elsewhere. Nevertheless, the general principles and premises of this study have not departed from the finding of the studies undertaken in other countries. Lastly, some of the statistics is not readily available to back-up certain claims. For instance, there is no reliable time series data that would show the trends of either the quantities or the values of the timber that has been exported to various destinations over the period. The Department of Forestry, the Malawi Revenue Authority, the Reserve Bank of Malawi, the Ministry of Industry and Trade, or the National Statistics Office, do not keep comprehensive merchandise records that are readily accessible, to show the quantities export, by whom, to which countries, when, and the revenue generated as well as the foreign exchange receipts that the country has been able to generate.

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APPENDIX 1a

Questionnaire/Survey

Questionnaire on Export Taxes (Government/Public Sector Officials)

We are carrying out an evaluation on the implementation of export taxes on Timber, to see if these taxes can be effectively used as a trade policy tool in Malawi. Thank you for taking the time to fill in this questionnaire; it should only take 5 minutes. Your answers will be treated with complete confidentiality. If you have any questions about this questionnaire, please contact [Mr Maxwell Mkumba (MA) – Director of International Cooperation, Ministry of Foreign Affairs on 0999840222 or 0888192999].

Over the years the Malawi Government through the Ministry of Industry and Trade has instituted several trade policy reforms and signed various trade protocols in an attempt to improve international market access and trade for Malawian products. This has seen the country implementing several taxes.

1. Is export tax one of them? (please tick one)

- Yes
- No

2. In brief, what is an export tax?

.....

.....

3. Are there any export taxes imposed on timber exports? (please tick one)

Yes

No

If Yes then why specifically on timber (reasons or objectives)?

.....
.....
.....

4. How this export tax is charged (is it on quantity or weight or value)?

.....
.....

5. At what point is this tax collected (production or border)?

.....

6. So far are the objectives of the tax being met?

.....

7. How would you justify this policy in line with the view of trade agreements such as those obtaining with SADC or COMESA or WTO.

.....

.....

.....

8. In view of the treaties, for how long will this export tax on timber be sustained?

.....

Thank you for taking time to answer the questionnaire.



Appendix 1b

Questionnaire/Survey

Questionnaire on Export Taxes (Producers/Private Sector Traders)

We are carrying out an evaluation on the implementation of export taxes on Timber, to see if these taxes can be effectively used as a trade policy tool in Malawi. Thank you for taking the time to fill in this questionnaire; it should only take 5 minutes. Your answers will be treated with complete confidentiality. If you have any questions about this questionnaire, please contact [Mr Maxwell Mkumba (MA) – Director of International Cooperation, Ministry of Foreign Affairs on 0999840222 or 0888192999].

1. How many years have you been producing (or in the business of) timber?

.....

2. Do you export timber? (please tick one)

Yes

No

If Yes, how often and to where?

.....

3. Which border post do you use?

.....

4. Have you paid any tax on exporting your timber? (Please tick one)

Yes

No

5. How was this tax imposed (was it on quantity or weight or value)

.....
.....

6. Were you told the reason for this tax imposition by the officials? (Please tick one)

Yes

No

If Yes, then what was said?

.....
.....

7. How has this tax imposition affected your timber business?

.....
.....
.....

8. Any suggestions on how this tax can be administered.

.....

.....

.....

Thank you for taking time to answer the questionnaire.

