



# Malawi

## 1. Introduction

Malawi, a small land-locked country in south east Africa, only achieved its independence in 1966. For the next 28 years, the country was under one party rule and headed by the late Dr. Hastings Kamuzu Banda. In 1994, following considerable internal and external pressure, Malawi held its first multiparty elections and Dr. Bakili Muluzi of the United Democratic Front (UDF) party became the country's president.

According to the National Statistical Office, as of 2005, Malawi has an estimated population of 12.2 million people (National Statistical Office, date?). Given that Malawi is an agrarian economy, most of its population is engaged in some sort of agro-economic activity and the majority of its people live in rural areas. In 2005, poor performance in the agriculture sector contributed to low economic growth, recorded at 2.1%, compared to a growth of 5.1% registered in 2004 (Ministry of Economic Planning and Development, date?). In 2006, the growth in real Gross Domestic Product (GDP) was expected to increase to 8.4% from 2005's level of 2.1%.

Since its independence, Malawi's domestic production and, consequently, its international trade portfolio, has been dominated by primary products such as tea, coffee, tobacco, cotton and oilseeds. Since the country has very few mineral deposits, its exports of minerals have been limited to some non-precious stones. However, future trade may come to include more minerals following the discovery of other mineral reserves in the country. Current bilateral and multilateral trade agreements have allowed Malawi to export a few processed products, such as apparel, sugar, spices and plastics, among others, to its trade partners.

## 2. Economy

Since December 2000, Malawi has implemented an economic programme with support from the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). That programme is aimed at restoring macroeconomic stability and sustainably reducing the country's considerable poverty levels. Due to fiscal slippages that prompted donors to withhold budgetary support, the programme was not implemented until November 2001. The government of Malawi had to rely on domestic financing to finance its budget deficit. Consequently, Malawi's economic performance in 2001 was very weak. The growth rate in real GDP, as shown in Table 1, contracted by 4.1%, mainly due to the drop in maize production caused by pervasive and severe



drought. Inflation remained at 27.5% and the budget deficit (including grants) worsened to 7.4% of GDP in 2001 in contrast to 2.0% in 2000.

Table 1 also shows that Malawi's economic performance in 2002 improved marginally due to the narrow revenue base and the lack of budget support resulting from donors' temporary withdrawal of financial support. In addition, over-expenditure and maize imports also significantly contributed to the growth of the overall budget deficit, measured at 12.8% of GDP. Economic performance improved in 2003: economic growth increased and the rate of inflation slowed down to 9.6%. However, due to the continued suspension of donor support, the fiscal deficit (including grants) stood at 8.9% of GDP. In 2004, Malawi's economic growth rate increased to 5.1% and inflation increased slightly to 11.5% due to a poor food crop harvest. Fiscal deficit was reduced to 5.6% of GDP. The drought that hit the country intensified and economic performance worsened in 2005, with growth falling even further to 2.1% from its 2004 level of 5.1%. Inflation increased from 11.5% in 2004 to 15.5% a year later because of increases in food and oil prices.

**Table 1:** Malawi's macroeconomic indicators: 2000-2005

	2000	2001	2002	2003	2004	2005
GDP growth	2.0	-4.1	1.9	3.9	5.1	2.1
GDP per capita growth	-1.1	-7.3	0.5	3.8	4.4	-
Unemployment	-	-	-	-	-	-
Inflation	29.3	27.5	14.9	9.6	11.5	15.5
Investment to GDP ratio	13.6	13.8	10.5	12.5	11.4	11.3
Savings to GDP ratio	3.4	4.7	-7.5	-10.2	-5.4	-8.8
Budget deficit to GDP ratio	-2.0	-7.4	-12.8	-8.9	-5.6	-3.7
Current account deficit to GDP ratio	-10.3	-10.4	-19.4	-24.2	-26.8	-40.3
Capital account surplus to GDP ratio	14.0	16.4	10.2	8.2	14.2	13.5
United States dollar (US\$) exchange rate	59.84	72.56	77.09	97.92	108.40	121.25
South African rand (ZAR) exchange rate	8.54	8.61	7.39	13.15	17.98	18.51

In the external sector, the current account deficit to GDP ratio has continued to worsen for over the period, increasing from 10.3% of GDP in 2000 to 40.3% of GDP in 2005. This deterioration is due to the increase in the importation of maize and fertilisers because of the combined effect of drought and the government's fertiliser subsidy programme.

The Malawian government is fully committed to restoring donor confidence through its fiscal discipline and pursuance of sound economic policies. With this commitment, 2005-2006 was the first financial year of implementation of a three-year IMF-PRGF programme. The country's macroeconomic performance remained satisfactory and Malawi met all of the quantitative and structural performance criteria targets despite its food crisis. To strengthen expenditure control mechanisms and reduce domestic borrowing by government, the government implemented the Integrated Financial Management and Information System (IFMIS), a public accounting computer system that permits centralisation of the government's payment system. The aim of this system is to improve public financial management.

The goal of the Ministry of Trade and Private Sector Development is to transform the economy from a predominantly importing and consuming one into a producing and exporting one, thereby contributing significantly towards sustainable economic growth, job creation, economic empowerment, the generation of competitive exports and the harnessing of local resources. Improved export performance continues to be limited by supply side constraints that beset Malawi. Its poor macroeconomic environment, characterised by high interest rates, high inflation rates, a volatile exchange rate for the Malawian kwacha (MK), high transportation costs, the high cost and the unreliability of electricity supply and poor telecommunications, undermines the competitiveness of the country's export sector. Malawi's over-dependence on a few non-branded commodities leaves it vulnerable to fluctuations of the world prices for commodities. The sanitary and phyto-sanitary (SPS) requirements in developed countries' markets continue to act as a de facto barrier to trade for many Malawian agricultural products. Finally, a continued dependence on rain-fed agriculture leaves Malawi's agricultural production and exports highly vulnerable to changing weather patterns, as was evident during the 2004-2005 growing season.

## 3. Structure and patterns of trade

### 3.1 Trade balance

Table 2 shows that Malawi's total exports rose from MK22.8 billion in 2000 to MK30.8 billion in 2001. Much of this increase in exports was due to the increase in the value of domestic exports. Tobacco, which accounted for 60.4% of domestic exports, had a 15.6% increase in its export value for 2000-2001. The 15.6% increase in the value of tobacco exports is mainly attributed to the price increase measured at 13.5%. In terms of volume, tobacco exports increased by only 2.1% beyond the volumes exported the previous year. For 2000-2001, the export value of tea also increased, but only slightly. The increase in that commodity's export income was due to a 20.5% increase in Malawi's tea exports volumes. Sugar exports increased by 8.7% in 2001 over its 2000 levels. This increase was due to a 9.1% increase in the unit price. Other exports, such as edible nuts and apparel, also increased in 2001 when compared to 2000. All of these increases may have contributed to the jump in exports value between 2000-2001. In addition to the export increases, the devaluation of the kwacha against the United States dollar (US\$), from MK60 per dollar to MK73 per dollar, may also have influenced the increase in nominal exports.

The values of exports were almost constant for 2001-2002 and for 2003-2004. However, there was a substantial jump in the value of exports in 2002-2003. In 2003, Malawi's total exports amounted to MK49.1 billion, representing an increase from MK29.0 billion. This large increase in the value of exports was largely due to the depreciation of the Malawian kwacha against both the US dollar and the South African rand, as is evident in Table 1. In nominal terms, exports exhibited an increasing trend but in real terms, domestic exports decreased, recording lower export volumes and values (in US dollar terms) due to low tobacco sales. The National Economic Council noted that those sales were affected by cross-border trade, low prices, post-harvest losses, high farm inputs and high interest rates.





**Table 2:** Malawi's trade balance with the world, with South Africa and with the rest of SADC (RoSADC): 2000-2004 (MWK m)

	2000	2001	2002	2003	2004	Growth rate (%)
Exports	22,749	30,832	28,963	49,074	49,933	22.59
Imports	32,282	39,335	53,654	76,639	101,191	34.34
Trade balance	-9,533	-8,503	-24,691	-27,566	-51,259	
Exports to South Africa	1,952	2,739	4,034	7,282	7,461	44.18
Imports from South Africa	13,222	17,206	22,244	30,621	32,105	26.50
Trade balance with South Africa	-11,270	-14,467	-18,210	-23,339	-24,644	
Exports to the SADC	3,851	5,731	5,700	9,939	12,322	33.33
Imports from the SADC	17,261	22,470	30,766	44,067	57,890	36.26
Trade balance with the SADC	-13,410	-16,739	-25,066	-34,128	-45,568	

\* Note: Growth rates are calculated from time trend regressions.

Table 2 shows that Malawi's trade balance has continued to register a deficit, particularly one which has progressively widened. The steady depreciation of the Malawian kwacha against the currencies of its major trading partners may have resulted in an increase in the value of imports over the past five years. Due to the depreciation of the local currency, the import unit price has increased much more than has the increase in the export unit price. Consequently, the terms of trade for commodities worsened as did the income terms of trade. Malawi's imports largely consist of machinery, vehicles, petroleum products, fertilisers and maize. The country's large fuel import requirement means that it is highly vulnerable to increases in the international oil price. The importation of fertiliser requires some explanation. In order to maintain soil productivity, due to soil degradation, fertiliser imports continued to increase. Drought, flooding and a lack of inputs that resulted in low food production caused maize imports to increase between 2002-2005. This also explains the increasing budget deficit recorded for 2002-2004.

**Table 3:** Exports and imports by region: 2004)

Region	Exports value (MWK m)	Exports (%)	Imports Value (MWK m)	Imports (%)
World	49,933	100.00	101,191	100.00
SADC	12,322	24.68	57,890	57.21
European Union	17,698	35.44	13,393	13.23
MERCOSUR	356	0.71	2,075	2.05
Rest of Africa	6,505	13.03	2,399	2.37
Oceania	673	1.35	211	0.21
Rest of Americas	281	0.56	40	0.04
Rest of Asia	1,965	3.93	15,056	14.88
Rest of Europe	2,778	5.56	241	0.24
Eastern Asia	1,067	2.14	6,657	6.58
Other regions	6,288	12.59	3,222	3.18

### 3.2 Exports and imports by region

Table 3 shows the exports and imports between Malawi and the regions of the rest of the world. For its imports, Malawi is turned towards two main regions, SADC and the EU. For its exports, it is turned heavily towards the EU and to Africa – SADC and beyond. For exports the link with the EU is in terms of the commodities in which Malawi specialises. Interestingly Malawi has little links to North America – as identified in table 3, row 7 ('the Rest of Americas').

In an effort to enhance Malawi's integration into regional and multilateral trading partners, the country has continued to participate actively in bilateral, regional and multilateral trade agreements.

On multilateral commitments, Malawi participates in the World Trade Organisation's (WTO's) trade negotiations under the Doha Work Programme. In these negotiations, and as a least developed country, Malawi is concerned with trade-related development issues such as improved market access, preservation of existing preferences, provision of special and differential treatment to poor countries as well as the reduction of technical barriers to trade, non-tariff barriers and other distorting measures that hinder Malawi's trade performance. Malawi also participates in the Integrated Framework for Trade-related Technical Assistance Programme that promotes the integration of the least developed countries into the global economy and trade issues into national development strategies. An additional multilateral programme in which it is involved is the Joint Integrated Technical Assistance Programme (JITAP). This programme aims at building capacity in selected African countries in trade negotiations, implementation of the WTO agreements and related trade policy formulation as well as building a national knowledge base on the multilateral trading systems and the



supply capacity and market knowledge necessary for exporting and export-ready enterprises.

Malawi is currently participating in the Africa Caribbean Pacific (ACP) and European Union (ACP-EU) Economic Partnership Agreement (EPA) negotiations. As a developing country, Malawi enjoys preferential access to the EU under the Everything But Arms Agreement and this has led to increased sugar exports to the EU. Under the Cotton Agreement, Malawi exports 40,000 tons of sugar at a price higher than that of the world market price. Malawi exports other commodities like bananas and rice, too, to the EU.

Under the African Growth and Opportunity Act (AGOA), Malawi is granted preferential access to the US market for 1,800 products on a duty and quota free basis in addition to the standard Generalised System of Preferences (GSP) Programme offered by the US government. Malawi benefited from increased garment exports to the US after being designated as an AGOA textiles and apparel beneficiary country in October 2000. Malawian garment exports to US peaked during 2004.

However, with the phasing out of the WTO Agreement on textiles and clothing in 2005, the US's quota restrictions on more competitive garments producers in Asia were eliminated. This led to the US garment market becoming more competitive for African manufacturers. Hence, Malawi's garments manufacturers switched their exports back to the South African market. Beyond textiles and clothing, Malawi currently exports macadamia nuts to the US under AGOA and is presently the largest exporter of this commodity to that market.

These trade agreements explain the trade pattern between Malawi and the EU, the US, Asia, the rest of Europe and the rest of Africa (i.e. outside of the SADC and the Common Market for Eastern and Southern Africa or COMESA).

With regard to bilateral agreements, Malawi is a member of the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area. In 2001-2002, Malawi managed to maintain a trade surplus with the COMESA region. In 2003-2004, Malawi had trade deficits with its COMESA trade partners and in 2004, its deficit with the COMESA partners expanded significantly to MK2.8bn.

Malawi is also a member of the Southern Africa Development Community. Under the SADC, Malawi has a sugar export quota of 10,000 tons. Textiles and tea are also exported to the SADC. Malawi's trade deficit with its SADC trading partners widened significantly from MK34.1bn in 2003 to MK45.6bn in 2004. Significantly, Malawi's largest trade deficits are within the SADC region and that suggests that the major challenge for Malawi is how to improve its trade performance with its neighbouring countries.

### 3.3 Top 10 sources of imports and destinations for exports

Malawi's major trading partners are South Africa, the EU, the US and the UK. South Africa remains both Malawi's largest export market as well as the largest source of its imports, as is evident in Table 4. However, the EU countries represent Malawi's largest export destination. Malawi imports machinery and fertiliser from the EU. Looking at Table 4, it is evident that Malawi trades less with the region and with Africa as a whole compared to its levels of trade with developed countries which are geospatially quite far away from Malawi. There is a need for Malawi to develop a policy of reaching out to its neighbouring countries and the region as a whole. If Malawi is able to exploit its comparative advantage over its competitors and can capitalise on that to lower the trade deficit it has with its neighbouring trading partners, its development agenda could be heading in the right direction.

At this time, trade in Africa is driven by particular products: Malawi's export trade with Kenya comprise mainly of sugar; while tobacco was exported to Egypt. Trade with other African countries fell under either the SADC or the COMESA trade agreements.

Malawi has an asymmetrical bilateral trade agreement with South Africa. The agreement is a duty-free one for products originating in Malawi and covering anything that Malawi can export to South Africa. Malawi also has a bilateral agreement with Zimbabwe, which was renegotiated to provide for better terms for Malawian firms. The new agreement was signed in May 2006. Malawi conducts trade with Zimbabwe within the COMESA arena. Malawi also has a longstanding customs agreement with Botswana. In December 2005, Malawi and Mozambique signed a bilateral trade agreement that provides for duty-free trade between the two countries. However, the agreement excludes certain products although it does provide for enhanced trade opportunities for Malawi's private sector and was effective in July 2006. Malawi imports tobacco from Mozambique for processing and due to the recent drought, it has engaged in maize trade with Mozambique.



**Table 4:** Top 10 sources of imports and destinations for exports: 2004

Exports				Imports		
	Country	Value (MWK m)	Share of total (%)	Country	Value (MWK m)	Share of total (%)
1	South Africa	7,461	14.94	South Africa	32,105	31.73
2	United States	5,933	11.88	Mozambique	13,710	13.55
3	United Kingdom	5,184	10.38	India	6,397	6.32
4	Germany	3,844	7.70	United Kingdom	5,246	5.18
5	Kenya	3,125	6.26	Japan	3,925	3.88
6	Netherlands	2,307	4.62	United States	2,752	2.72
7	Egypt	2,250	4.51	China	2,732	2.70
8	Switzerland	2,030	4.07	France	2,678	2.65
9	Mozambique	1,818	3.64	United Arab Emirates	2,529	2.50
10	Spain	1,737	3.48	United Republic of Tanzania	2,320	2.29

### 3.4 Fastest growing import and export partners

South Africa continues to be Malawi's dominant trading partner in terms of both imports and exports. Despite an asymmetrical trade agreement in Malawi's favour, the balance of trade weighs heavily in South Africa's favour.

Malawi enjoys modest trade surpluses with the EU and the US yet it records massive deficits with its regional trading partners closer to home. Trading relationships with its neighbours are highly unbalanced. Imports from Mozambique, Zimbabwe and Zambia are around eight times larger than its exports to those same destinations. Since Malawi is facing an ever-expanding trade deficit, especially with its trade partners in the SADC and the COMESA, it would be prudent for the country to develop policies that improve its export base with those partners.

Among its top seven fastest growing export markets, there are only three African countries in that list. Only one – South Africa – is a member of the SADC and the other – Kenya – is a member of COMESA. This gives rise to some important questions. Does this mean that Malawi is comparatively disadvantaged in its trade within the region? Are those regional markets not opening up to Malawian products to the same extent as Malawi is opening up its markets to their products?

Focusing on imports reveals the dominance of two sub-Saharan African (SADC) partners: Mozambique and South Africa. However, the picture here is complex. Mozambique has emerged as Malawi's fastest growing importing partner because Malawi imports tobacco grown in Mozambique for processing and re-exporting. Depending on Mozambique's macroeconomic policies, the trade in tobacco may continue as

**Table 5:** Fastest growing trade partners: 2000-2004

Imports			Exports		
Country	Value 2004 (MWK m)	Average growth 00-04 (%)	Country	Value 2004 (MWK m)	Average growth 00-04 (%)
Mozambique	13,710	133.47	Kenya	3,125	52.95
United Arab Emirates	2,529	74.69	South Africa	7,461	44.18
France	2,678	58.17	Netherlands	2,307	43.71
United Republic of Tanzania	2,320	57.11	United States	5,933	20.20
United States	2,752	45.85	United Kingdom	5,184	19.75
India	6,397	40.24	Egypt	2,250	17.63
China	2,732	36.72	Germany	3,844	6.85
Japan	3,925	30.83			
South Africa	32,105	26.50			
United Kingdom	5,246	10.29			

\* Note: Growth rates are calculated from trend line regression analysis. Only countries with trade greater than US\$20m are reported.

long as Mozambique lacks the capacity to process its own produce. Trade in maize between Malawi and Mozambique has been ongoing for many years and has now also taken the form of informal cross-border trade.

In recent years, the importation of used cars from the United Arab Emirates (UAE) increased as these are relatively affordable compared to those imported from South Africa. Malawi's transport sector is seeing a strong emergence of the minibus taxi industry, with entrepreneurs importing these buses from the UAE and Japan.

The effect of a liberalised trade account has seen an increase in imports from Tanzania, India and China. Imports from those partners span cosmetics, spices, electronics and motor vehicle spare parts for imported Japanese, reconditioned vehicles that are common in Malawi. Electronics imports are mainly sourced from China (as re-exports from Tanzania), the UAE, the UK and South Africa. Imports from China consisted mainly of ceramic and plastic chinaware. Malawi's major export item to Kenya is sugar yet South Africa still remains the top export destination for Malawian products like sugar and textiles.



### 3.5 Commodity composition of trade

Table 6 shows that Malawi imports mineral products and chemical products from the world, South Africa and the rest of SADC (Ro-SADC). In the mineral products category, Malawi mostly imports fuel and salt, while fertilisers and pharmaceutical products make up most of its chemical products imports. Mineral products imports from the SADC consist of petrol, diesel, paraffin, lubricants, bitumen and tar. Malawi's large fuel import requirement means that the country is highly vulnerable to increases in oil prices. It is the view of the Ministry of Economic Planning and Development that prolonged, high international oil prices are likely to have a negative impact on the country's trade performance over the medium term.

Fertiliser and cement imports account for a large portion of the negative trade balances that Malawi has with Zambia and Zimbabwe. Other factors that have contributed to the increase in the imports of fertilisers include the presence of a fertiliser subsidy programme, while increases in cement imports reflect a demand by the construction industry because domestic supply has fallen short of meeting the sector's demand. Further pressure also emanates from the residential property market and is spurred on by the low interest rates environment. Recently, there has been an increase in the construction of office buildings in Malawi's three major cities of Blantyre, Lilongwe and Mzuzu. The current administration is working hard towards developing most of the sectors in the economy and is also looking at ways of minimising transportation costs, hence, it has started building roads. Consequently, cement is in high demand in the Malawian economy.

Malawi imports machinery and vehicles from the world and from South Africa. As mentioned previously, road and building construction is booming in Malawi, resulting in increases in the importation of machinery. Table 6 also shows that Malawi imports metal products, plastics and rubber from neighbouring South Africa.

Malawi imports most of its vegetable products from the rest of SADC, excluding South Africa. These vegetable products are cereals (but not maize), fruits, oilseeds, coffee, tea and spices. Prepared foodstuffs, beverages and tobacco are imported mostly from the rest of SADC and the world. Most oilseeds are imported for processing and value addition before being sold locally or exported.

**Table 6:** Commodity composition of imports: 2004

Product	Share of total imports from world (%)	Share of total imports from South Africa (%)	Share of total imports from the RoSADC (%)
C01: Animals (live) and animal products; Section I	1.12	1.14	1.90
C02: Vegetable products; Section II	6.04	1.48	11.94
C03: Fats and oils (animal or vegetable); Section III	2.29	1.15	0.97
C04: Prepared foodstuffs, Beverages and tobacco; Section IV	8.01	3.17	25.49
C05: Mineral products; Section V	13.91	14.07	35.69
C06: Chemical products; Section VI	16.81	19.57	9.20
C07: Plastics and rubber; Section VII	5.25	8.59	0.92
C08: Leather products; Section VIII	0.15	0.09	0.01
C09: Wood products; Section IX	0.23	0.46	0.23
C10: Paper products; Section X	6.56	6.99	1.85
C11: Textile products; Section XI	6.76	3.30	2.84
C12: Footwear, headgear and umbrellas; Section XII	0.68	0.37	0.53
C13: Stone, cement and glass products; Section XIII	0.70	1.25	0.23
C14: Pearls and precious stones; Section XIV	0.12	0.01	0.00
C15: Metal products; Section XV	5.46	8.57	3.06
C16: Machinery; Section XVI	13.17	15.63	3.68
C17: Vehicles, aircraft and vessels; Section XVII	9.88	10.69	0.84
C18: Photographic instruments, clocks and musical instruments; Section XVIII	1.40	1.31	0.01
C19: Arms and ammunition; Section XIX	0.02	0.03	0.00
C20: Furniture, toys and other products; Section XX	1.41	2.04	0.61
C21: Works of art and antiques; Section XXI	0.04	0.09	0.00
C22: Commodities not elsewhere specified (n.e.s.); Section XXII	0.00	0.00	0.00

Malawi sources finished products, such as industrial products, vehicles, machinery, electronics, minerals and chemical products, from South Africa. Raw materials, such as tea, coffee, tobacco, spices and other beverages, are imported from the rest of SADC and the world. Locomotives are sourced from South Africa and the rest of world, especially from suppliers in the EU.

Consumption goods, such as electronics, tea and spices, are imported as are some other goods such as machinery, oilseeds and tobacco, that are intended for further processing.

Agricultural products continued to be Malawi's major domestic exports in 2004, with tobacco accounting for more than 49% of its total exports. However, performance in the tobacco sector was weaker in 2004 than in the previous year because of lower prices paid for the commodity on the auction floors. Tobacco remains Malawi's major foreign exchange earner. The country exports most of its partially processed tobacco to the EU, Egypt, Japan, the US and India. There are bilateral agreements with some of these countries pertaining to what

composition of exports from Malawi can enter those markets. Malawi's tobacco industry has expanded following the relocation of farmers from neighbouring Zimbabwe into Malawi's agricultural sector. Large international and local companies are responsible for exporting Malawi's tobacco and the commodity is purchased through a bidding process conducted on the auction floor.

Inflows of foreign direct investment (FDI) were evident in the sugar and tea industries, essentially because those sectors have large, international companies operating big, commercial farms inside of the country.

The exports of textile products are Malawi's second most important foreign exchange revenue earner. Knitted and non-knitted textiles were part of this category of products. Malawi has been exporting textiles to the US under the AGOA initiative but due to increased competition in the US market because of the removal of restrictions on Asian textile producers, Malawi has switched to exporting more of its textiles to South Africa. Textile exports to South Africa mainly comprise of finished items such as shirts, t-shirts, jeans and trousers, among others. Malawi has a few textile companies that are included in the preferential quota of textile exports to South Africa. This quota is permitted under an agreement between South Africa and four other SADC countries, namely Malawi, Mozambique, Zambia and Tanzania.

Malawi exports vegetable products to the world, South Africa and the rest of SADC. Tea, coffee, fruits, oilseeds (such as groundnuts and macadamia nuts), maize, soybeans, sunflower seeds, and spices (like paprika and pepper) are prominent in Malawi's vegetable products export basket.

Value addition for its exports needs to be more vigorously promoted if Malawi hopes to benefit more from its export markets. Even among the items that Malawi exports in sizeable quantities, its share of the SADC market is not as large as that of the world market. For those exports where Malawi's share of the SADC market is slightly higher than that of the world market, its percentage shares are not significant enough to be competitive. On average, looking at the data on export products, Malawi still has a long way to go in developing its export products so that the country can increase its market share and compete favourably on the world market. Without doing that, it will not be able to tap into the benefits of trade as they relate to economic development.



**Table 7:** Commodity composition of exports: 2004

Product	Share of total exports to world (%)	Share of total exports to South Africa (%)	Share of total exports to RoSADC (%)
C01: Animals (live) and animal products; Section I	0.17	0.01	0.07
C02: Vegetable products; Section II	16.86	26.43	14.12
C03: Fats and oils (animal or vegetable); Section III	0.01	0.02	0.05
C04: Prepared foodstuffs, Beverages and tobacco; Section IV	60.53	20.68	12.38
C05: Mineral products; Section V	0.36	0.03	1.92
C06: Chemical products; Section VI	0.59	0.24	5.59
C07: Plastics and rubber; Section VII	1.02	3.07	5.73
C08: Leather products; Section VIII	0.10	0.03	0.07
C09: Wood products; Section IX	0.49	2.19	1.31
C10: Paper products; Section X	2.36	0.24	23.47
C11: Textile products; Section XI	14.99	41.61	23.48
C12: Footwear, headgear and umbrellas; Section XII	0.04	0.00	0.24
C13: Stone, cement and glass products; Section XIII	0.07	0.06	0.14
C14: Pearls and precious stones; Section XIV	0.14	0.82	0.02
C15: Metal products; Section XV	0.44	1.01	2.83
C16: Machinery; Section XVI	0.78	1.20	3.41
C17: Vehicles, aircraft and vessels; Section XVII	0.73	1.66	3.87
C18: Photographic instruments, clocks and musical instruments; Section XVIII	0.08	0.05	0.47
C19: Arms and ammunition; Section XIX	0.00	0.00	0.01
C20: Furniture, toys and other products; Section XX	0.22	0.65	0.83
C21: Works of art and antiques; Section XXI	0.01	0.00	0.01
C22: Commodities not elsewhere specified (n.e.s.); Section XXII	0.00	0.00	0.00

## 3.6 Fastest growing import and export commodities<sup>1</sup>

### 3.6.1 Fastest growing export commodities

Table 8 shows that Malawi's fastest growing export commodities to the world in 2004 were printed books, newspapers and pictures. Articles of apparel, sugars and sugar confectionery, tobacco and manufactured tobacco substitutes, and products in the coffee, tea, mate and spices category are in line with the Malawian government's trade policies. Malawi, however, needs to develop processed export products that can be added to its list of fastest growing export products. With the exception of items in the H49, H61, H62 and H17 categories, as is shown in Table 8, most of the products on the fastest growing exports list are commodities and agricultural goods.

<sup>1</sup> Again, the comments relating to fastest growing trade partners may be relevant here.

**Table 8:** Fastest growing exports to the world: 2000-2004

Product	Value 2004 (MWK m)	Growth rate (%)
H49: Printed books, newspapers, pictures, etcetera	1,128	165.85
H12: Oilseed, oleagic fruits, grain, seed, fruit n.e.s.	953	66.37
H61: Articles of apparel, accessories, knit or crochet	2,534	54.15
H62: Articles of apparel, accessories, not knit or crochet	2,289	50.19
H08: Edible fruit, nuts, peel of citrus fruit, melons	943	47.01
H17: Sugars and sugar confectionery	8,234	40.69
H52: Cotton	2,268	39.17
H07: Edible vegetables and certain roots and tubers	779	30.13
H09: Coffee, tea, mate and spices	5,546	16.06
H24: Tobacco and manufactured tobacco substitutes	21,907	12.87

\* Note: Growth rates are calculated from trend line regression analysis. Only products whose exports are greater than US\$5m are reported.

Table 9 shows that a large proportion of Malawi's fastest growing exports to the world were destined for South Africa. Exports to South Africa of sugars and sugar confectionery for the period 2000- 2004 grew by more than 160% while the oilseed, fruits and grain market grew by 87%, the cotton market by 54% and the apparel market by 43%.

### 3.6.2 Fastest growing import commodities

Table 11 shows that among the fastest growing import items of 2000-2004, Malawi imported substantial amounts of fertilisers and cereals. The fertiliser subsidy programme implemented in the country along with the initial starter pack programme also under way, meant that fertiliser imports increased considerably in Malawi over the period. These programmes are part of government's campaign to end hunger, food insecurity and malnutrition.

The fertiliser subsidy programme and the earlier starter pack programme are targeted programmes. They were implemented mainly to benefit impoverished resource and subsistence farmers with the aim of increasing their food security.

Since Malawi imports its fertiliser resources, the floating of the exchange rate resulted in a devaluation of the Malawian kwacha. Consequently, prices of imported products, such as fertiliser, increased rapidly and lowered the purchasing power of rural households that depend on farming for their economic livelihoods. The dearth of adequate finances to purchase fertiliser resulted in poor harvests and that, in turn, led to food shortages. Subsidised fertiliser has been linked to an increased production of both food and cash crops.

During the period under review, the production of food and cash crops by smallholder farmers almost doubled. This lowered maize im-

**Table 9:** Fastest growing exports to South Africa: 2000-2004

Product	Value 2004 (MK m)	% growth
H17: Sugars and sugar confectionery	930	159.64
H12: Oilseed, oleagic fruits, grain, seed, fruit n.e.s.	648	86.81
H52: Cotton	984	53.60
H62: Articles of apparel, accessories, not knit or crochet	1,347	42.98
H24: Tobacco and manufactured tobacco substitutes	592	32.37
H09: Coffee, tea, mate and spices	1,172	29.16
H61: Articles of apparel, accessories, knit or crochet	744	19.26

\* Note: Growth rates are calculated from trend line regression analysis. Only products whose exports are greater than US\$5m are reported

**Table 10:** Fastest growing exports to the rest of SADC: 2000-2004

Product	Value 2004 (MWK m)	Growth rate (%)
H49: Printed books, newspapers, pictures, etcetera	1,092	176.43
H52: Cotton	795	164.30

\* Note: Growth rates are calculated from trend line regression analysis. Only products whose exports are greater than US\$5m are reported

ports and increased the exportation of cash crops such as tobacco, groundnuts, beans, cotton and rice.

Cereals imports went up as a result of the drought and floods experienced in some parts of the country between 2000-2004. Drought conditions also increased the importation of edible vegetables, roots and tubers such as cassava.

The entry of South African retailers, such as Shoprite, has also seen an increase in the importation of processed foods and vegetable products. To ensure a constant supply of major food items from reliable sources, Shoprite has sourced goods from its foreign suppliers in South Africa and that as led to an increase in the country's total cereals imports.

Furthermore, the reduction in the country's food production levels due to drought and high fertiliser prices encouraged local traders to seek business opportunities in the importation of fruits such as oranges and apples. The drought conditions resulted in a deficit of 684,000 metric tons in 2002 and 647,000 metric tons of maize in 2005.

In line with the boom in the construction sector, domestic production of lime products has not meet demand, hence, there has been an increase in imports of those products. Pharmaceutical and edible animal products have also been imported into the country in considerable numbers for the period 2000-2004. Imports of second-hand clothes have increased, too.



Table 12 lists Malawi's fastest growing imports from South Africa. The table shows that fertilisers are mainly imported from South Africa, which had a 93% share of the total in 2004.

Due to the ease of access to the South African market and the low cost of transportation between these two markets, South Africa remains the dominant source for Malawi's fertiliser imports.

Malawi's imports of pharmaceutical products, plastics, mineral fuels, oils and distillation products, paper and paperboard and articles of iron and steel from South Africa have increased as a proportion of its total imports. This is because South Africa is a more developed economy.

Even if the trade agreement between Malawi and South Africa is in Malawi's favour, Malawi cannot meet most of South African's import needs, hence, its neighbour sources those products from industrialised countries.

**Table 11:** Fastest growing imports from the world: 2000-2004

<b>Product</b>	<b>Value 2004 MK m)</b>	<b>% growth</b>
H07: Edible vegetables and certain roots and tubers	568	228.28
H31: Fertilisers	6,981	94.77
H10: Cereals	2,552	89.84
H24: Tobacco and manufactured tobacco substitutes	6,216	77.13
H25: Salt, sulphur, earth, stone, plaster, lime and cement	2,057	58.09
H11: Milling products, malt, starches, inulin, wheat gluten	2,617	50.91
H30: Pharmaceutical products	5,106	50.42
H04: Dairy products, eggs, honey, edible animal product n.e.s.	974	37.68
H15: Animal, vegetable fats and oils, cleavage products, etcetera	2,313	34.64
H27: Mineral fuels, oils, distillation products, etcetera	11,994	22.20

\* Note: Growth rates are calculated from trend line regression analysis. Only products whose imports are greater than US\$5m are reported.



On the other hand, Malawi's need for industrial products and food items can easily be provided by South African firms at cheaper transportation costs than those from other sources. This explains why the trade balance deficit between Malawi and South Africa keeps on widening.

Similarly, Table 13 shows that for 2000-2004, the fastest growing imports into Malawi were fertilisers and cereals, principally because of the fertiliser subsidy programme and the drought and floods that reduced food production output in the country.

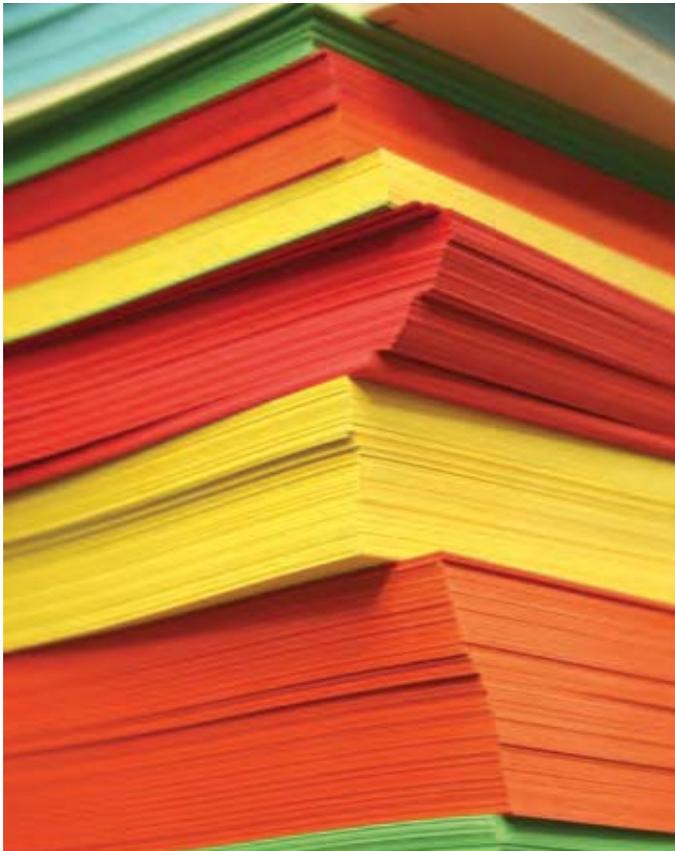
The recent influx of motor vehicles into the country has exerted pressure on the demand for fuel and oils, resulting in more imports. The import value of fuel may also have grown much higher as a result of price increases on the world market.

As explained earlier, the importation of tobacco from Mozambique for processing has resulted in tobacco being one of the fastest growing import items into the Malawian market.

**Table 12:** Fastest growing imports from South Africa: 2000-2004

Product	Value 2004 (MWK)	Growth rate (%)
H31: Fertilisers	3,421	93.22
H30: Pharmaceutical products	569	48.67
H39: Plastics and articles thereof	1,955	34.56
H27: Mineral fuels, oils, distillation products, etcetera	447	32.56
H48: Paper and paperboard, articles of pulp, paper and board	1,784	31.41
H73: Articles of iron or steel	939	30.37
H72: Iron and steel	1,259	28.62
H38: Miscellaneous chemical products	1,008	27.90
H40: Rubber and articles thereof	802	25.48
H84: Nuclear reactors, boilers, machinery, etcetera	3,006	16.49

\* Note: Growth rates are calculated from trend line regression analysis. Only products whose imports are greater than US\$5m are reported.



**Table 13:** Fastest growing imports from the RoSADC: 2000-2004

Product	Value 2004 (MWK m)	Growth rate (%)
H31: Fertilisers	1,074	135.11
H10: Cereals	1,500	132.43
H27: Mineral fuels, oils, distillation products, etcetera	7,668	84.30
H24: Tobacco and manufactured tobacco substitutes	6,123	83.34
H11: Milling products, malt, starches, inulin, wheat gluten	1,078	76.75
H25: Salt, sulphur, earth, stone, plaster, lime and cement	1,514	57.98
H34: Soaps, lubricants, waxes, candles, modelling pastes	547	48.97
H84: Nuclear reactors, boilers, machinery, etcetera	729	40.72

\* Note: Growth rates are calculated from trend line regression analysis. Only products whose imports are greater than US\$5m are reported.

## 4. Describing trade

Table 14 presents measures of the concentration of Malawian trade. Trade intensity is a measure of the strength of bilateral trade flows and helps to determine the value of the share of bilateral trade in world or regional trade.

On average, Malawi trades more with the SADC than with the rest of the world and its trade share continues to increase. Table 14 shows that the export intensity index increased from 22.9 in 2002 to 27.72 in 2003. The Ministry of Economic Planning and Development noted that the increase in export trade intensity between Malawi and the SADC may be due to the fact that Malawi is trying to increase its trade share within the region. The import trade intensity decreased from 16.15 in 2000 to 8.54 in 2003. The continual devaluation of the Malawian kwacha against the major currencies of its trade partners, like South Africa, made imports more expensive and may account for the decline in the import index.

Table 14 also presents the complementarity index, a measurement which provides information on the compatibility of the export profile for one country and import profile of its major trading partners. The complementarity index in Table 14 ranges from 1.5 to 2.7. Since the indices are small (close to zero), they show that exports from Malawi and the imports of its major trading partners in the SADC do not match. Most of Malawi's exports do not go to its major trading partners in the SADC.

**Table 14:** Trade intensities for exports to and imports from SADC, 2000 -2003

	2000	2001	2002	2003
Intensity with the SADC (exports)	22.59	26.39	27.44	27.72
Intensity with the SADC (imports)	16.15	19.17	9.80	8.54
Complementarity index	1.49	1.63	1.79	2.66

Table 15 shows the Hirschmann indices for trade between Malawi and the rest of the world, South Africa and the rest of SADC. According to the Hirschmann indices presented in Table 15, both Malawi's exports and imports are becoming less concentrated. Yet the pattern of change in the indices over the period is not steady. The indices increased from 2000 to 2002-2003 before falling in 2004. Exports to and imports from South Africa are similarly inconsistent. The Hirschmann indices of exports to the rest of the SADC show that, on average, there is a decrease in the concentration of trade between Malawi and the rest of SADC. Indices of imports from the rest of SADC show that there is an increase in the concentration of trade between Malawi and the SADC. Low export concentration, however, may actually be beneficial to a small economy because it potentially reduces the impact of international trade risks arising from product price fluctuations in the international market place (Mikic, 2005).

**Table 15:** Hirschmann indices: 2000-2004

	2000	2001	2002	2003	2004
Exports to the world	0.384	0.381	0.388	0.291	0.235
Imports from the world	0.035	0.034	0.033	0.024	0.024
Exports to South Africa	0.079	0.071	0.088	0.106	0.075
Imports from South Africa	0.043	0.063	0.040	0.056	0.028
Exports to the RoSADC	0.135	0.237	0.072	0.072	0.093
Imports from the RoSADC	0.033	0.069	0.104	0.114	0.143

## 5. Revealed comparative advantage

A country's technology levels, its human resource development levels and factor endowments are some variables that affect its comparative advantage rating. Basic economic theory states that a country should produce and export those goods in which it has comparative advantage and should import those goods in which it has no comparative advantage.

Table 16 shows that Malawi has high revealed comparative advantage for primary agricultural produce. Revealed comparative advantage exists for tobacco and manufactured tobacco substitutes, sugar and sugar confectionery, and coffee, tea, mate and spices.

Like most developing countries, Malawian society is characterised by low literacy levels, low levels of technology and low incomes, among others. Almost 64% of the population in Malawi is literate (National Statistical Office, date?). The combination of these factors means that the country relies heavily on agriculture as its major export revenue earner. This is because most of the population is engaged in farming either for subsistence needs or as an additional source of cash income. Due to the lack of considerable deposits of valuable mineral resources, Malawi remains an agrarian-based economy. The country's lack of processing technology has also led to a bias towards exporting primary agricultural products. Labour is generally cheap, which makes labour intensive agricultural production in Malawi less expensive than elsewhere. Collectively, these signs of low levels of social development also happen to be what gives Malawi its high revealed comparative advantage in tobacco, sugar, coffee and tea. Although for some products, some processing is done to add value, this is generally not the case in Malawi.

In recent years, Malawi's tobacco industry has suffered major losses as a result of declining market prices on the tobacco auction floors. Auction floor buyers have complained about the quality of tobacco grown in Malawi, arguing that quality levels have declined, while other countries, like Zambia and Mozambique, have emerged in the market place as producers of high quality tobacco.

In 1994, as was mentioned in the introductory section of this report, Malawi's government embraced the IMF-World Bank's structural adjustment programme. All price subsidies on agricultural inputs were scrapped. This resulted in a jump, by over 100%, in prices of agricultural inputs like fertiliser. Most smallholder farmers who produced a large proportion of barley tobacco could not manage to buy enough fertiliser for their tobacco crop. Coupled with continual deforestation, which resulted in massive loss of top soil through rainwater, wind and soil erosion, soil fertility degenerated and, hence, productivity worsened. Consequently, the quality of crop production, including for the tobacco crop, declined significantly. Farmers started receiving low tobacco prices.



es on the auction floors; some even went out of business. An increased numbers of farmers could not service their input loans, leading banks and other lending institutions to cut down on issuing agricultural input loans to the sector. There is reason to believe that this compromised the quality of Malawian tobacco.

Since the 1990s, in contrast to Malawi, Zambia's agricultural production has been improving and higher quality tobacco has been produced there more than ever before. Currently, tobacco buyers in Malawi have opened markets in Zambia even though those also compete with Malawian tobacco. Another important point to note is that the tobacco world market has not been growing as rapidly as it had before because of the impact of anti-smoking campaigns. As a result, Malawi's tobacco industry has experienced declining prices in the market place. This has pushed government to implement policies that seek out alternative, lucrative crops. . Despite government's intervention to introduce a minimum price, accompanied by its threats that tobacco buyers would be expelled from the country if prices remained low, the price of tobacco has not improved.

As highlighted by the Ministry of Economic Planning and Development, the current government's economic policy still prioritises the agricultural sector as the dominant stimulus for economic growth). To solve the problem of low levels of production, the Malawian government has been expanding and strengthening access to agricultural inputs, promoting small scale irrigation and encouraging sustainable use of natural resources. Diversification into other sectors beyond agriculture is also being pursued, although less vigorously. Tourism and small-scale mining have been identified as important sectors to be nurtured in the Malawian economy.

In the agriculture sector, the government wants to see diversification into agricultural produce other than tobacco. The government would also like to see increased processing capacity for agricultural produce so that value is added and access to domestic and international markets is improved. A programme to rehabilitate the country's irrigation schemes was started by the government as part of its efforts to spur increased output within this sector. The implementation of the World Bank funded Irrigation, Rural Livelihoods and Agricultural Development Project is expected to improve the performance of the agricultural sector in the 2006-2007 fiscal year. The country signed a MK2.4bn agreement with the EU to implement the Farm Income Diversification Programme. That programme assists rural farmers with increasing their farm incomes through investment in high-income agricultural enterprises.

In order for these programmes to be sustainable, the government need to focus on human capital development. In this regard, Malawi's government is committed to increasing the availability of adult literacy



classes, reducing teacher-pupil ratio in classrooms, by training more primary school teachers and building new secondary schools as well as improving the country's tertiary education system.

The quality and availability of adequate infrastructure is an essential element of an enabling environment for private sector-driven growth as is the provision of timely and quality social services to the populace. Roads, rail, air and water infrastructure, electricity, telecommunications and information technologies contribute to the creation of an appropriate environment for enhanced productivity by Malawian firms. In this regard, the government of Malawi has completed the preparation of the Integrated Infrastructure Services Project. The project aims to increase access to basic infrastructure such as water, electricity and communication services.

**Table 16:** Revealed comparative advantage with respect to the world: top 20 commodities (HS2) in 2004

Product	Index value	Exports (MWK m)
H24: Tobacco and manufactured tobacco substitutes	162.53	21,907
H17: Sugars and sugar confectionery	76.32	8,234
H09: Coffee, tea, mate and spices	68.48	5,546
H52: Cotton	8.49	2,268
H49: Printed books, newspapers, pictures, etcetera	5.60	1,128
H12: Oilseed, oleagif fruits, grain, seed, fruit, n.e.s.	5.46	953
H07: Edible vegetables and certain roots and tubers	4.36	779
H08: Edible fruit, nuts, peel of citrus fruit, melons	4.02	943
H61: Articles of apparel, accessories, knit or crochet	3.87	2,534
H62: Articles of apparel, accessories, not knit or crochet	3.03	2,289
H63: Other made textile articles, sets, worn clothing, etcetera	2.16	366
H31: Fertilisers	1.93	218
H40: Rubber and articles thereof	0.79	411
H10: Cereals	0.71	185
H44: Wood and articles of wood, wood charcoal	0.44	243
H36: Explosives, pyrotechnics, matches, pyrophorics, etcetera	0.42	6
H46: Manufactures of plaiting material, basketwork, etcetera	0.33	3
H41: Raw hides and skins (other than fur skins) and leather	0.30	47
H03: Fish, crustaceans, molluscs, aquatic invertebrates n.e.s.	0.28	80
H25: Salt, sulphur, earth, stone, plaster, lime and cement	0.23	29



## 6. Intra-industry trade

Intra-industry trade (IIT) allows industries to specialise and exploit economies of scale. Intra-industry trade also brings about efficiency. This section presents and analyses intra-industry trade in the context of the Grubel-Lloyd index. The index is calculated for Malawi's trade with the world, South Africa as well as the rest of SADC.

Table 17 gives the Grubel-Lloyd index for intra-industry trade between Malawi and the world as per the country's top 15 commodities. The general picture therein is that there is very little intra-industry trade underway between Malawi and its trading partners.

A similar pattern exists for Malawi's trade with South Africa, as shown in Table 18. The only high Grubel-Lloyd index for intra-industry trade with South Africa is in the apparel category. Re-exports occur within the textiles industry. Due to the high levels of competition in the US textile market, Malawian traders have increased their textile exports to South Africa.

Table 19 shows that in over 70% of the products which Malawi trades with the rest of SADC, there exists stronger intra-industry trade with the SADC than with South Africa. That partly indicates that the SADC countries are at a similar level of development to Malawi than it is with South Africa. Unlike intra-industry trade between Malawi and South Africa that was only in textile materials, intra-industry trade between Malawi and the rest of SADC involved agricultural machinery, motor vehicles for the transportation of goods, tractors and trailers, as is shown in Table 19. It is clear that the intra-industry trade between Malawi and the rest of SADC involves a lot of re-exporting<sup>2</sup>. In general, most of the intra-industry trade between Malawi and the other SADC countries involves agricultural products or products related to agriculture.

<sup>2</sup> The Food and Agricultural Organisation itself has, for example, noted that re-exports in Malawi include fish such as frozen shrimps and prawns, trout salmonid, cod fish and flat fish. More details on the issue of re-exports are available at: [http://www.nso.malawi.net/data\\_on\\_line/economics/Trade%20on%20NSO%20website/Malawi%202005%20Trade%20Statistics%20Brief\\_Release.pdf](http://www.nso.malawi.net/data_on_line/economics/Trade%20on%20NSO%20website/Malawi%202005%20Trade%20Statistics%20Brief_Release.pdf)

**Table 17:** Intra-industry trade with the world: top 15 commodities (HS4) in 2004

Commodity	Grubel-Lloyd index	Exports (MWK )	Imports (MWK )
H2008: Fruit, nut, edible plant parts n.e.s., prepared/preserved	1.00	11.64	11.65
H3924: Plastic table, kitchen, household, toilet articles	0.98	60.12	62.40
H6114: Garments, knit or crochet, n.e.s.	0.92	16.83	14.28
H6206: Women's or girls' blouses, shirts and shirt-blouses	0.85	18.39	24.75
H0713: Vegetables, leguminous dried, shelled	0.84	675.36	486.40
H1201: Soya beans	0.81	19.30	13.15
H1208: Flour, meal of oleaginous seed or fruit except mustard	0.78	193.22	124.79
H6204: Women's, girls suits, jacket, dress, skirt, etcetera, woven	0.77	216.86	136.97
H4907: Documents of title (bonds), unused stamps, etcetera	0.76	1,082.52	1,751.25
H3104: Mineral or chemical fertilisers, potassic	0.73	52.82	30.40
H9015: Survey, oceanographic, meteorological instruments, etcetera	0.70	11.31	21.09
H8537: Electrical power, etcetera, control and distribution boards	0.68	30.22	58.41
H7013: Glassware for table, kitchen, toilet, decoration	0.67	15.99	32.10
H2520: Gypsum, anhydride, gypsum plaster	0.64	18.64	39.25
H6305: Sacks and bags of a kind used for packing of goods	0.64	289.66	136.24

**Table 18:** Intra-industry trade with South Africa: top 15 commodities (HS4) in 2004

Commodity	Grubel-Lloyd index	Exports (MWK )	Imports (MWK )
H6204: Women's, girls' suits, jacket, dress, skirt, etcetera, woven	0.82	46.87	32.32
H8429: Self-propelled earth moving, road making, etcetera, machines	0.54	17.74	48.40
H1209: Seed, fruit and spores, for sowing	0.53	17.00	47.26
H4016: Articles of vulcanised rubber except hard rubber, n.e.s.	0.42	11.11	41.41
H6203: Men's or boys' suits, jackets, trousers etcetera not knit	0.39	491.03	120.00
H8701: Tractors (other than works, warehouse equipment)	0.35	39.46	183.09
H6206: Women's or girls' blouses, shirts and shirt-blouses	0.31	14.23	2.59
H6111: Babies garments, clothing accessories, knit or crochet	0.28	15.79	2.53
H9403: Other furniture and parts thereof	0.27	38.21	249.34
H6109: T-shirts, singlets and other vests, knit or crochet	0.26	217.79	32.59
H0901: Coffee, coffee husks and skins and coffee substitutes	0.18	25.63	2.49
H6205: Men's or boys' shirts	0.16	277.00	24.01
H4901: Printed reading books, brochures, leaflets, etcetera	0.15	15.14	187.59
H6103: Men's, boys' suits, jackets, trousers, etcetera, knit or crochet	0.14	75.75	5.51
H2401: Tobacco unmanufactured, tobacco refuse	0.13	592.32	42.31

**Table 19:** Intra-industry trade with the RoSADC: top 15 commodities (HS4) in 2004

Commodity	Grubel-Lloyd index	Exports (MWK m)	Imports (MWK m)
H2520: Gypsum, anhydride, gypsum plaster	1.00	18.64	18.67
H9403: Other furniture and parts thereof	0.96	28.62	26.34
H1209: Seed, fruit and spores, for sowing	0.92	14.73	17.23
H1208: Flour, meal of oleaginous seed or fruit except mustard	0.88	159.57	124.78
H6301: Blankets and travelling rugs	0.86	19.64	25.98
H8701: Tractors (other than works, warehouse equipment)	0.86	85.55	114.46
H8716: Trailers and non-mechanically propelled vehicles n.e.s.	0.85	11.36	15.32
H6309: Worn clothing and other worn articles	0.82	12.08	17.56
H8432: Agricultural machinery, soil preparation, cultivation	0.80	16.82	11.25
H8704: Motor vehicles for the transport of goods	0.78	56.64	36.25
H8703: Motor vehicles for transport of persons (except buses)	0.69	20.20	38.68
H4819: Paper, board containers, packing items, box files, etcetera	0.67	40.31	79.44
H3923: Containers, bobbins and packages, of plastics	0.55	23.25	60.54
H0713: Vegetables, leguminous dried, shelled	0.54	117.33	315.58
H8711: Motorcycles, bicycles etc with auxiliary motor	0.51	11.38	3.85



## 7. Summary of trade agreements planned and currently in force

Malawi is party to several bilateral, regional and multilateral trade agreements. These include the following:

World Trade Organization (WTO) trade negotiations under the Doha Work Programme. In these negotiations, and as a least developed country, Malawi is concerned with trade-related development issues such as improved market access, preservation of existing preferences, provision of special and differential treatment to poor countries as well as the reduction of technical barriers to trade, non-tariff barriers and other distorting measures that hinder its trade performance. Malawi also participates in the Integrated Framework for Trade-related Technical Assistance Programme which promotes the integration of least developed countries into the global economy and inserts trade issues into national development strategies. An additional multilateral programme in which it is involved is the Joint Integrated Technical Assistance Programme (JITAP). This programme aims at building capacity in selected African countries in the domains of trade negotiations, the implementation of WTO agreements and related trade policy formulation, a national knowledge base on the multilateral trading systems, and the supply capacity and market knowledge needed for exporting and by export-ready enterprises.

ACP/EU Economic Partnership Agreement (EPA) negotiations. As a developing country, Malawi enjoys preferential access to the EU under the Everything But Arms Agreement. This has led to increased sugar exports for Malawi to the EU. Under Cotonou Agreement, Malawi exports 40,000 tons of sugar at prices higher than the global market price. Malawi also exports other commodities like bananas and rice to the EU.

African Growth and Opportunity Act (AGOA). Malawi is granted preferential access to the US market for 1,800 products on a duty and quota free basis in addition to the standard GSP Programme offered by the US. Malawi benefited from this Act through increased garment exports to the US after it was designated as an AGOA textiles and apparel beneficiary country in October 2000. Malawi is currently exporting macadamia nuts to the US under the AGOA and is currently the largest exporter of this commodity to that market.

Common Market for Eastern and Southern Africa (COMESA) Free Trade Area. Trading arrangements with other COMESA countries involve two categories of duty free and quota –free trade. Preparations are underway for the forthcoming transition, scheduled for 2008, of the COMESA Free Trade Area (FTA) into a customs union.

Southern Africa Development Community (SADC). Malawi is a member of the SADC. Under the SADC, Malawi is committed to reducing tariffs on intra-SADC trade. The implementation of the SADC Trade Protocol is aimed at creating a SADC Free Trade Area by 2008.

Malawi-South Africa Trade Agreement. Malawi has an asymmetrical bilateral trade agreement with South Africa. This is a duty free agreement for those products originating in Malawi and covers anything that Malawi can export to that particular market.

Malawi-Zimbabwe Trade Agreement. Malawi has a bilateral agreement with Zimbabwe, which was renegotiated to provide better terms for Malawian firms, and the new agreement was signed in May 2006. Malawi conducts trade with Zimbabwe also under the auspices of the COMESA.

Malawi-Botswana Trade Agreement. Malawi has a long standing customs agreement with Botswana.

Malawi-Mozambique Trade Agreement. Malawi and Mozambique signed a bilateral trade agreement providing for duty free trade between the two countries. The agreement does, though, contain a limited number of excluded products. This agreement provides for enhanced trade opportunities for Malawi's private sector and was effective in July 2006. Malawi imports tobacco from Mozambique for processing and, more recently, due to the drought it has experienced, it has purchased maize from its trade partner.

Malawi-Canada Trade Agreement. Malawi has a trade agreement with Canada under the Generalised System of Preference (GSP) Agreement.

The overlapping preferential trade agreements which Malawi is signatory to each have different geographical coverage, trade agendas and trade rules, thereby makes the country's trade regime more complex than it should be and quite difficult to manage.

## 8. Conclusion

Malawi's trade balance has been worsening in recent years. Even though the value of its exports has increased over time, Malawi's imports have been increasing in value much more sizeably than have its exports. The impact of globalisation and the advent of FTAs has not been even for the participating countries. For those countries that were prepared and which had started developing their economies, the FTAs have enhanced their economic performance. But for those countries which have been economically stagnant, as Malawi has been, the FTAs have been economically punitive. The Malawian economy has not been innovative enough to move away from a specialisation in the production





and exportation of primary agricultural products. Since the colonial era, and more than thirty years after independence, Malawi has relied on agriculture and the exportation of primary agricultural products, like tobacco and tea, for the bulk of its export revenue earnings. Like any other country, the Malawian economy's demand for processed products, machinery, vehicles and other manufactured products has resulted in the country's imports surpassing the value of its exports.

Even as a primarily agricultural economy, Malawi has regularly failed to produce enough food for its own population and has been forced to import food. The level of investment in agriculture in Malawi is still very low. The irrigation schemes that were set up by the Banda administration collapsed because of a lack of commitment from the government. Farmers were supposed to learn about all aspects of irrigation and, with the assistance of governmental expertise, set up their own irrigation equipment but that did not happen. Malawi has continued to rely on rain-fed agriculture for years. If, and only if, Malawi promotes water harvesting through dams and irrigation systems, in addition to slowing down soil erosion and land degradation, its agricultural development and food security will continue to be very vulnerable and tenuous.

Agriculture is still perceived by the Malawian government as the engine of its economic growth, consequently, the economy will not move sufficiently quickly to compete on the export market if the current issues in the agriculture sector remain unaddressed. As stated earlier, the levels of education in a country may contribute to its comparative advantage and its ability to compete on the world market but that is not sustainable. Asia's growing economies may not be endowed with valuable natural resources, neither are they agricultural economies, but their approach to human resource development has helped them to import, add value and export very effectively and efficiently.

As a land-locked country, coupled with its low levels of education and a lack of endowments of large quantities of valuable natural resources, Malawi may look at the agricultural sector as a source of economic growth in the medium term. In the long term, Malawi needs to diversify in order to survive in the global economy. The current government must move quickly to develop the Shire-Zambezi waterway as this may reduce transportation costs and ease its access to seaports through which its imports and exports travel. The success of the Shire-Zambezi waterway project will be a major achievement for a land-locked country such as Malawi. Promoting the development of high-quality export products and diversifying its exports will allow Malawi to take full advantage of the waterway project.



## 9. References

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