

Malawi: macroeconomic and trade profile

Opportunities and challenges towards implementation of AfCFTA

Prachi Agarwal

February 2022



Series ODI-GIZ AfCFTA policy paper series

Key messages

- Malawi experienced a doubling of gross domestic product (GDP) between 2016 and 2019. Amid the Covid-19 pandemic, GDP growth slowed from 5.7% in 2019 to 0.8% in 2020. The International Monetary Fund (IMF) forecasts a modest growth of Malawi's economy by 2.2% in 2021, 3% in 2022 and 4.5% in 2023, subject to better fiscal budget management.
- Malawi is a net importer of goods and services. On average from 2015 to 2019, trade in goods amounted to 50% of GDP while trade in services reached 6.5% of GDP. During the pandemic in 2020, exports and imports declined by 14.5% and 10.1%, respectively.
- Malawi's exports are concentrated in tobacco, black tea, cane sugar, macadamia nuts, peas and soybeans but there is room to support exporting of rubber and wood products, beans, corn and wheat, given increasing world demand for these products.
- Inflows of foreign direct investment (FDI) to Malawi have been fluctuating in the recent past; they peaked in 2018 at \$959.4 million, dropped slightly in 2019, and plummeted to \$98 million in 2020 (decline by 88%) amid the pandemic.
- Malawi has been a net importer of goods from other African countries, with trade deficit reaching \$479.4 million in 2019. On average between 2015 and 2019, intra-African trade accounted for 32% of Malawi's total trade. Amid the pandemic in 2020, intra-African exports dropped by 19.4% while imports from Africa increased by 15.4%.
- Malawi has ratified the African Continental Free Trade Area (AfCFTA), formulated a national strategy and implemented the new tariff plan covering liberalisation of 90% of goods. Malawi has signed additional agreements to hasten implementation of the AfCFTA including the Protocol on Free Movement of Persons and the Single African Air Transport Market.



Implemented by



Acknowledgements

The author would like to thank Sherillyn Raga, Maximiliano Mendez-Parra, Dirk Willem te Velde and Chimwemwe Richard Mwage for comments on earlier drafts of the report, as well as Riaz Butt-Garcia and Jose Guzman for their contributions. The author is grateful for the financial support of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German government. The views presented in this publication are those of the author and do not necessarily represent the views of GIZ, the German government or ODI. Comments welcome to p.agarwal@odi.org.uk.

About this publication

This paper aims to inform relevant stakeholders, including the private sector and non-AfCFTA experts, on Malawi's current economic situation and implementation of AfCFTA. The paper is structured as follows. Section 1 discusses the recent socioeconomic development in Malawi, followed by the country's trade landscape and business environment (Section 2). Section 3 presents Malawi's intra-African trade performance and status of AfCFTA implementation. The final section summarises the paper's analysis through a SWOT (strengths, weaknesses, opportunities and threats) presentation.

This paper is part of the ODI–GIZ policy paper series under a larger project titled: 'GIZ Support Programme to the AfCFTA'. The Programme supports the GIZ's partners on the continental (AU Commission, AfCFTA Secretariat), regional (currently East African Community, EAC and Economic Community of West African States, ECOWAS; planned Southern African Development Community, SADC) and national levels on the negotiations and implementation of the AfCFTA.

Disclaimer: The content of this publication has been produced rapidly to provide early ideas and analysis on a given theme. It has been cross-read and edited but the usual rigorous processes have not necessarily been applied.

About the author

Prachi Agarwal is a Senior Research Officer at ODI.

1 Recent socioeconomic developments

Malawi is a landlocked, least developed country in south-eastern Africa, bordered by Mozambique, the United Republic of Tanzania and Zambia (Table 1). It has a primarily agrarian economy, with 80% of the population living in the rural areas.¹ The share of agriculture in GDP has dropped in the last decade from almost 40% in 2002 to 21% in 2020. Simultaneously, share of service (in GDP) rose to 55% in 2020 owing to reforms in the financial services sector, a boost in the telecom sector driven by a rise in mobile subscriptions and privatisation of the transport sector (WTO, 2016). Moreover, the share of industrial activity (including mining) also rose to 17% in 2020 (WDI, 2021). Malawi's landlocked position in the continent means it is reliant on transit corridors and ports in neighbouring countries that contribute to additional transport time, frequent delays and higher cost of trading (WTO, 2016).

Heavily dependent on rain-fed agriculture to maintain food security (WTO, 2016), Malawi is exceedingly vulnerable to climatic shocks. For example, it was badly hit by the drought driven by El Niño in 2015 and 2016 that led to failed crops for many subsistence farmers (USAID, 2016). As a result, GDP dropped by 15.6% from \$6.4 billion in 2015 to \$5.4 billion in 2016. Thereafter, relief from severe climatic conditions provided a boost to the economy through a rebound in agricultural production such that GDP doubled in value between 2016 and 2019 and grew at an average annual rate of 25.9% in that three-year period (WDI, 2021). Real GDP growth was projected at 4.8% in 2020 in anticipation of another strong harvest (World Bank, 2020b) but the Covid-19 pandemic plummeted GDP growth rate from 5.7% in 2019 to 0.8% in 2020 (WDI, 2021). This decline was driven by a decrease in Malawi's exports of cash crops such as tobacco, sugar, coffee, cotton and tea due to declining international demand, with contributions from reduced tourism receipts as well as low investment inflows (World Bank, 2020b; AfDB, 2020). More details on trade and investment are discussed in Section 2.

Covid-19 increased Malawi's vulnerabilities and, owing to the informal nature of the economy, in terms of both the tax base and the database on firm registration, the government was unable to respond with an appropriate fiscal response. The pandemic and the resultant economic slowdown also affected the government's tax revenue base and increased fiscal pressures. However, the government increased expenditure by 3.9% of GDP to respond to the health crisis and provide economic incentives (AfDB, 2020). As a result, the mounting fiscal deficits resulted in an accumulation of domestic debt worth 65% of GDP in June 2020 from 62% in 2019 and just 55% of GDP in 2016 (AfDB, 2021; World Bank, 2020b).

The IMF has projected a modest rebound of the Malawian economy by 2.2% in 2021, and 4.5% in 2023 (Table 2). However, this will require better fiscal budget

¹ As a result, only about 11.2% of the population had access to electricity in 2019 (WDI, 2021).

management and greater diversification of the economy to reduce vulnerabilities (World Bank, 2020b; AfDB, 2020). To stabilise Malawi's public debt, the IMF (2021a) suggests that the government needs to redouble efforts on domestic revenue mobilisation, re-prioritise expenditure, allow exchange rate flexibility and strengthen monetary and fiscal policy response to curtail inflationary pressures (IMF, 2021a).

Table 1 Malawi country facts and social indicators

Capital: Lilongwe			
Geographical size: 118,484km ² ; located in Eastern Africa; shares border with Mozambique, Tanzania and Zambia			
Language: English, Chichewa (both official)			
Religion: Christianity and Islam			
Currency; exchange rate: Malawi kwacha (MWK) 1 USD = 809.44 MWK			
	2000	2010	2020/latest
Population (million)	11.1	14.5	19.1
Dependency ratio (%) ¹	90.7	90.9	79.1
Life expectancy (years)	45.1	55.6	64.3 ²
Mean years of schooling	3	4.3	4.7 ²
GNI per capita (constant 2017 PPP\$)	725.92 ³	959.0	1034.7 ²
Poverty rate (% of population below national poverty line)	72.5 ⁴	71.1	69.2 ⁵
Unemployment rate (%)	6.0	5.9	6.0
Gender inequality index ⁶	0.68	0.6	0.57 ²
Human development index ⁷	0.39	0.43	0.48 ²

Notes: 1 dependency ratio of the young (0–14 years old) to the working-age (15–64 years old) population; 2 as of 2019; 3 as of 2002; 4 as of 2004; 5 as of 2016; 6 higher score = higher gender inequality; 7 higher score = better human development; GNI = gross national income; PPP = purchasing power parity. Sources: WDI (2021); UNDP (2021).

Table 2 Selected macroeconomic and financial sector performance and forecast¹

	2019	2020	2021f ⁴	2022f	2023f
Real GDP (% growth)	5.4	0.9	2.2	3	4.5
Consumer prices (period average, % growth)	9.4	8.6	9.5	9.0	6.9
Total investment (% of GDP)	7.8	7.5	8.4	9.8	9.6
Government revenue and grants, FY ² (% of GDP)	14.8	14.7	14.3	14.9	15.2
Government expenditure, FY (% of GDP)	19.3	22.8	22.5	23.2	23.0
Overall fiscal balance, FY (% of GDP)					
Public debt including guarantees (% of GDP)					
Credit to non-government sector (% growth) ⁵	6.7	11.6	12.7	14.3	14.5
Current account balance (% of GDP)	-11.9	-14.2	-15.8	-15.1	-14.8
Remittance inflows ³ (% of GDP)	2.0	1.6			
Gross international reserves (months of prospective imports) ⁵	3.1	3.5	3.8	4.2	4.5

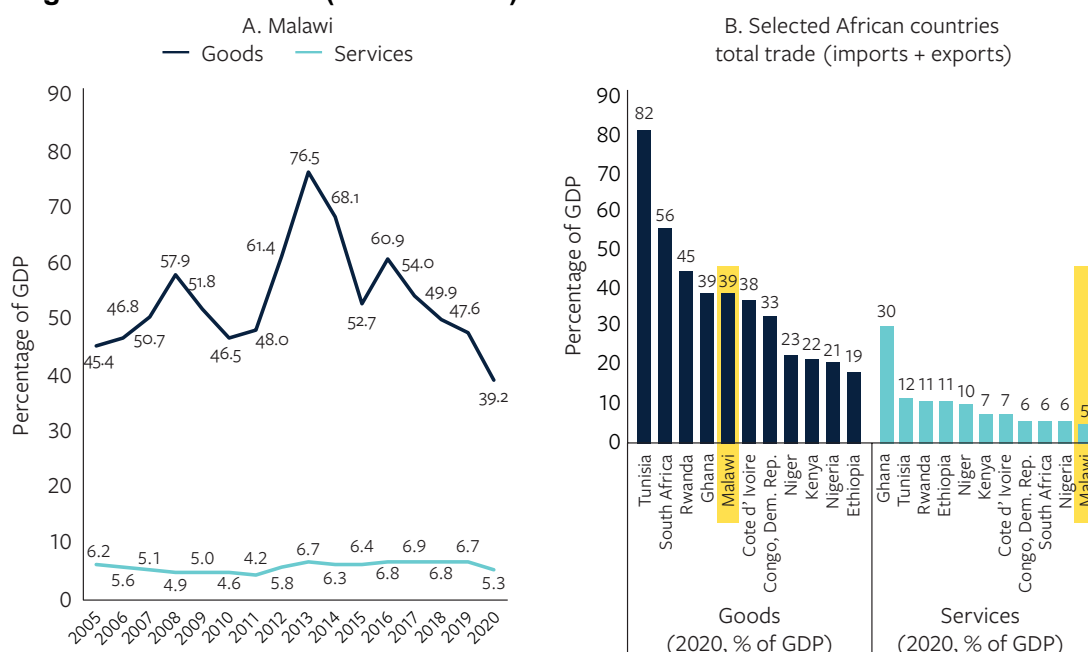
Notes UNDP (2021): 1 largely based on IMF (2021b); 2 fiscal year runs from July to June; 3 authors' computation using projected remittance inflows in IMF (2021b); 4 'f' indicates forecast.; 5 data from IMF (2021a). Sources: IMF (2021a); IMF (2021b).

2 Trade landscape and business environment

2.1 Trade landscape

The Malawian government through the Ministry of Industry and Trade has sought to transform its economy by promoting exports in a diversified set of products, and engaging with new markets (MITC, 2016). Total trade in goods comprised a share of 46.5% (of GDP) in 2010 that rose to 60.9% in 2016 and dropped to 47.6% in 2019. Trade in services, on the other hand contributed a stable share of approximately 6.5% to GDP between 2010 and 2019. In 2020, share of trade in services in GDP dropped slightly to 5.3% (to \$461 million from \$540 million in 2019), while the share of trade in goods in GDP dropped to 39.2% (to \$3.4 billion from \$3.8 billion in 2019). When compared to other countries in Africa, Malawi lies in the middle of the pack for trade in goods (% GDP), while it displays one of the lowest shares in terms of trade in services (%GDP) (Figure 1, RHS).

Figure 1 Malawi and selected African countries' total trade (exports + imports) in goods and services (as % of GDP)



Source: authors' computations based on UNCTAD data.

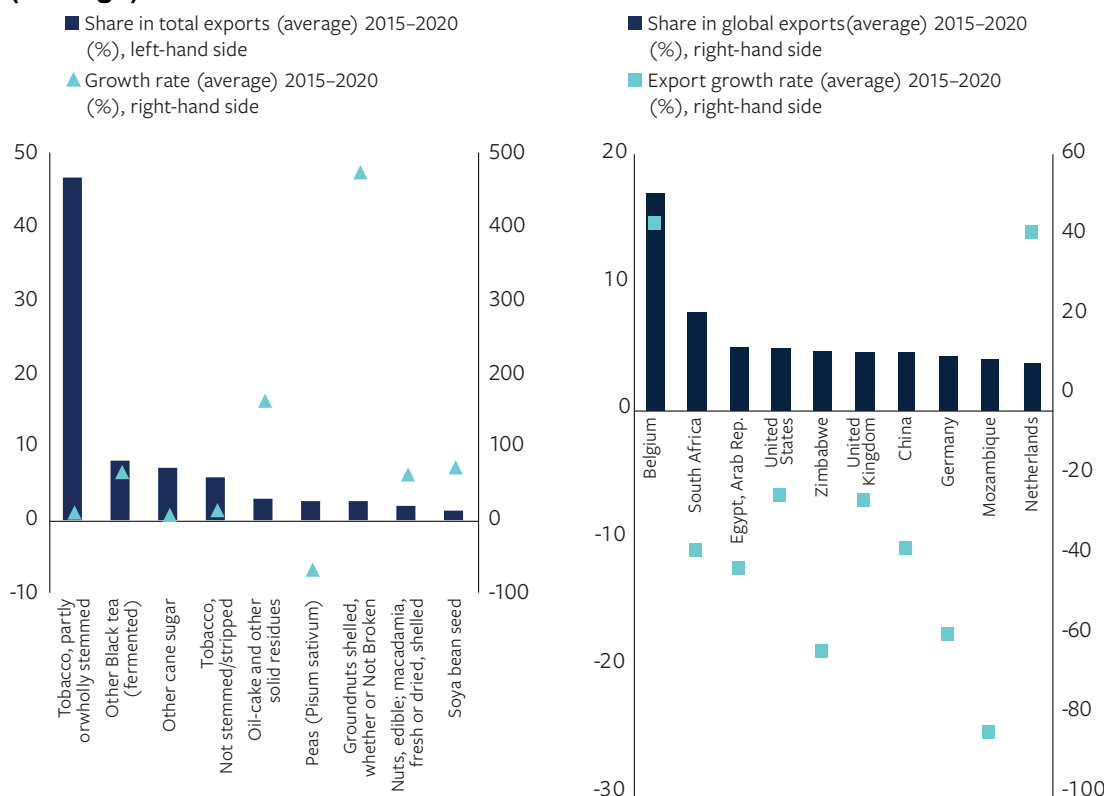
Within the basket of goods exported by Malawi, the top ten products comprised 69% of total goods exports in 2015 that rose tremendously to 82.5% in 2020. Of these, tobacco alone made up 47% (on average) of total exports in the period 2015–2020. Malawi is the fifth largest exporter of burley tobacco and relies heavily on these

exports to support its economy in terms of export earnings, and employment generation. Exported variety is produced by small-scale farmers in small land holdings and production remains dependent on price of the preceding year (MITC, 2021a). The second largest export is black tea (8% share in total exports between 2015 and 2020), followed by cane sugar that is produced chiefly for exports (97% of sugar grown is exported), nuts (groundnut and macadamia), peas and soybeans (MITC, 2021a). With the exception of peas, exports of all nine top products witnessed positive growth in the same period (Figure 2).

Malawi primarily exported to its regional partners South Africa, Egypt, Zimbabwe and Mozambique as well as its extra-regional partners in the European Union – Belgium, Germany and the Netherlands – the United States (US) and the United Kingdom (UK).

Malawi’s total global exports declined by 15.5% between 2015 and 2019 and then plummeted further by 14.5% in 2019/20 due to the pandemic. However, over the entire period 2015–2020, exports to Belgium and the Netherlands recorded a positive growth of 42.6% and 40.2% respectively (Figure 2).

Figure 2 Malawi’s top 10 export products and destinations, 2015–2020 (average)



Source: author’s computations based on UNCTAD data (6-digit product category).

On the import side, Malawi imported unused postage (from South Africa and the UK), light petroleum oils (United Arab Emirates (UAE) and Kuwait), medicaments for therapeutic or prophylactic uses (India), fertilisers (China) and used/pre-owned clothing articles (China) between 2015 and 2020. Although these top five items remained constant in that period, Malawi imported an unprecedented number of monitors used for automatic data processing systems in 2019 valued at \$76.7 million from Norway, as well as iron and steel products used for real estate

construction such as scaffolding and shuttering worth \$81.2 million from China (WITS, 2021).

More than half of Malawi's total imports were sourced from South Africa (18.2%), China (14.7%), India (9.7%), UAE (9.2%) and UK (5.7%) in the period 2015–2020. Other important regional import sources were Southern African Development Community (SADC) members Zambia (4.9%), Mozambique (2.1%), Tanzania (1.9%) and Zimbabwe (0.9%), comprising 10% of imports in the same period (ITC, 2021a). More details on Malawi's intra-African trade are discussed in Section 3.

We examine the revealed comparative advantage (or RCA) of and world demand (from all countries) for Malawi's top 25 exported products (accounting for 90% of its total exports) in the last five years (i.e., 2015 to 2019, or latest available data). Table 3 presents Malawian products that can be supported through export promotion or intervention to increase competitiveness.

Table 3 Export products for promotion and targeted intervention

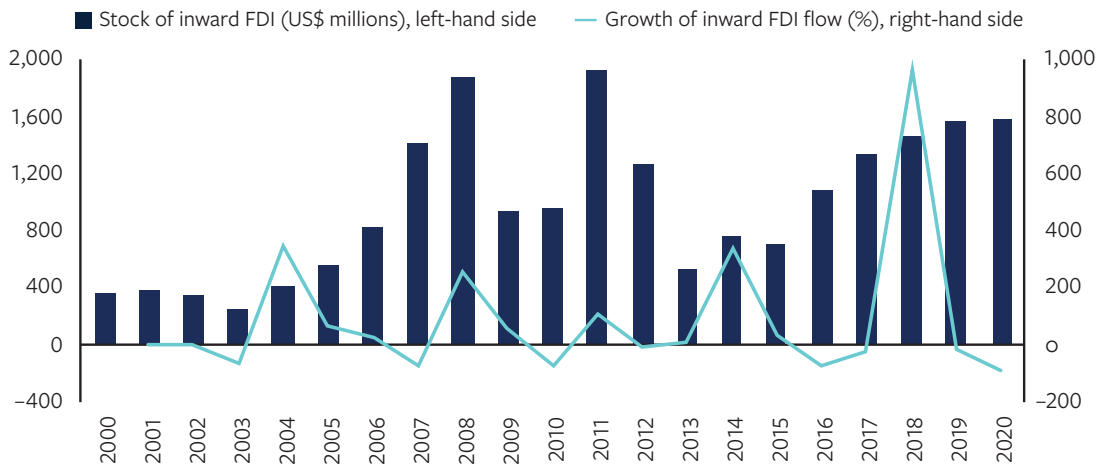
	Increasing RCA (e.g., for export promotion, facilitation)	Declining RCA (e.g., intervention to increase competitiveness)
Increasing world demand	<ul style="list-style-type: none"> • Macadamia nuts (shelled) • Soybean seeds, soybeans • Groundnuts • Tobacco, not stemmed or stripped • Protein concentrates • Natural rubber • Fibreboard of wood • Laminated wood 	<ul style="list-style-type: none"> • Kidney beans • Corn (maize) • Wheat bran
Declining world demand	<ul style="list-style-type: none"> • Chickpeas • Black tea (fermented) • Cane sugar • Oilcakes • Tobacco, partly or wholly stemmed • Tobacco refuse 	<ul style="list-style-type: none"> • Peas • Cotton seeds • Mineral or chemical fertilisers • Cotton (not carded or combed) • Tamping machines and road rollers

Source: authors' compilation using data from World Integrated Trade Solution.

2.2 Foreign direct investment

Inwards foreign direct investment (FDI) for Malawi has fluctuated in the recent past. According to United Nations Conference on Trade and Development (UNCTAD) data, inward FDI flow peaked in 2018 at \$959.4 million, dropped slightly by 14.3% in 2019 and plummeted to just \$98 million in 2020, marked by a decline in investment inflow by 88.1% due to disruption caused by the pandemic. The FDI stock rose marginally between 2019 and 2020 from \$1.6 billion to \$1.9 billion (Figure 3). A recent study reported that the agricultural sector attracts the highest FDI, especially from South Africa, Germany and the US (MITC, 2021b).

Figure 3 Inward FDI (stock and flow), 2000–2020



Source: author's computations based on UNCTAD data.

The MITC (2021b) has identified investment opportunities to support export growth under the preferences offered by the Southern African Development Community (SADC), COMESA and the European Union (EU) Generalised System of Preferences (GSP) in the following sectors:

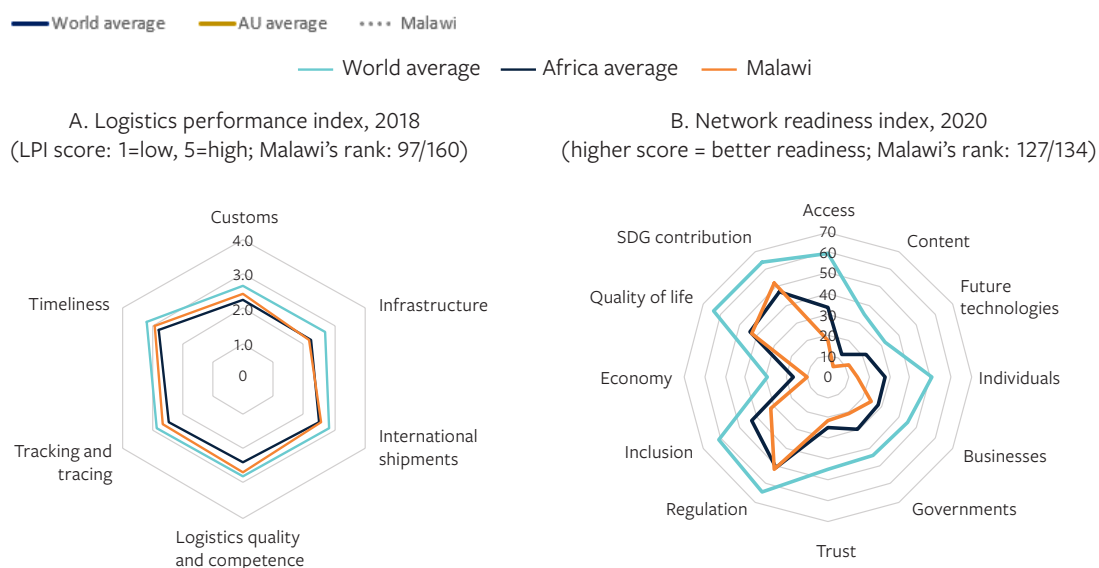
- agriculture, including livestock production, aquaculture, horticulture, agro-processing, sugar, honey production and integrated cotton development
- mining, including coal mining, quarrying, limestone production and gemstone mining, focused on metals like gold, uranium, platinum, nickel, copper and base metals
- textiles and garments manufacturing
- semi-processed tobacco and tea
- engineering materials.

2.3 Business environment

Malawi offers a business environment with political stability, a market-oriented and liberalised economy, competitive labour markets, preferential access to several markets, an investor-friendly climate, improving infrastructure and untapped investment opportunities (MITC, 2021b). The country has also streamlined investment establishment procedures such as its One-Stop Centre to assist investors. Moreover, the government has undertaken reforms to ensure that tax, labour, environment, health and safety laws continue to support foreign investment (BEBA, 2021).

In terms of ease of doing business, Malawi performs better than the African average (and better than 38 other African countries) when dealing with construction permits, registering new property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency associated with new businesses (World Bank, 2020a). Moreover, the government is keen to offer public–private partnerships to facilitate and promote strategic infrastructural investment through financial assistance, technical know-how, logistical support and operational management (MITC, 2021b; WTO, 2016).

Figure 4 Trade logistics and digital readiness



Note: aggregate scores (world and Africa) are based on simple average.
Sources: Figure 4A data based on World Bank database; Figure 4B based on NRI data in networkreadiness.org by Portulans Institute.

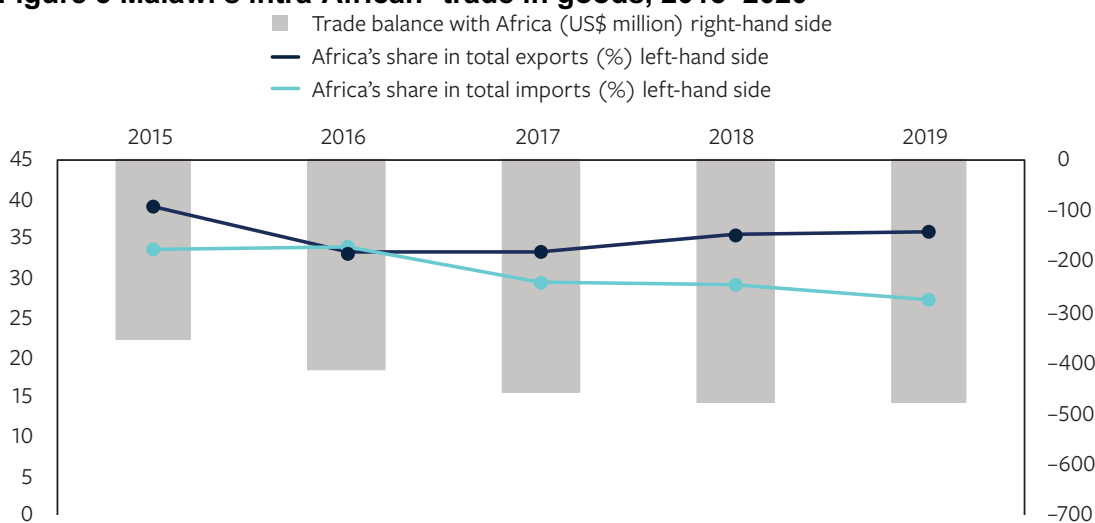
On the logistics performance index (2018), Malawi scores better than an average African country across customs, international shipments, logistics quality, tracking and timeliness, with the exception of infrastructure (Figure 4A). Notably, only 11.2% of the population had access to electricity in 2019, and this shortfall in electricity supply has been a major deterrent to growth as businesses are forced to pay higher charges to maintain stable supply, and remain plagued by frequent outages (WDI, 2021; WTO, 2016; Conrema, 2018). Malawi also suffers from lack of access to technology and innovation, and low readiness by businesses and government to embrace digital practices. Although it displays above-average eagerness in contribution to SDGs and regulatory framework (Figure 4B). Institutionally, Malawi lacks transparency, accountability in the public sector that suffers from widespread corruption, low quality of public administration and fiscal policy (World Bank, 2020c). This impacts Malawi's competitiveness in international markets and its ability to attract meaningful investment, despite the existence of a fairly open investment regime (WTO, 2016).

3 Intra-African trade performance and AfCFTA

3.1 Background: Malawi's goods trade with Africa

Malawi is a net importer of goods from other African countries² and recorded a trade deficit of \$355.6 million in 2015 that rose to \$479.4 million in 2019 (Figure 5). Malawi exported a little over one-third of its total exports to Africa (36% in 2019) and imported 27% of its imports from within the continent. As a result, intra-African trade for Malawi comprised an average of 32% across 2015–2019.³ In terms of values, intra-African exports fell by 22% from \$421.5 million in 2015 to \$328.7 million in 2019. On the contrary, imports grew by 4% from \$777 million in 2015 to \$808 million in 2019.⁴ The same trend continued during the pandemic; exports dropped by 19.4% while imports increased by 15.4% from 2019 to 2020.

Figure 5 Malawi's intra-African* trade in goods, 2015–2020



Note: For consistency, 'intra-African' in this figure refers to Malawi's trading with 34 African countries with complete goods exports and imports data from 2017 to 2019.

Source: authors' computations based on World Integrated Trade Solution (WITS) database.

Within the continent, Malawi's top five export destinations were Kenya (20.5% of total intra-African exports), Egypt (19.8%), South Africa (18.5%), Tanzania (9.6%) and Zambia (9.4%). Exports were concentrated in tobacco (26.2% of total exports), cane sugar (15.2%), groundnuts (11.9%), tea (7.5%) and oilcakes (6.6%). For

² For consistency, 'intra-African' in this figure refers to Malawi's trading with 34 African countries with complete goods exports and imports data from 2017 to 2019.

³ This is quite high and it is likely to be explained by the fact of Malawi being landlocked. It is possible that a significant part of that trade has been mis-recorded.

⁴ Authors' computations based on WITS data covering 34 African countries with complete goods trade (export and import) data with Malawi from 2017 to 2019.

seven of the top ten products exported to Africa, Malawi has been a net exporter since 2009. However, that was not the case for unmanufactured tobacco (net importer in 2013 and 2016), oilcakes (2009) and fibreboard of wood (2009, 2010). On a bilateral level, Malawi exported cane sugar to Kenya (49% of total exports to Kenya), unmanufactured tobacco to Egypt (99.7%), tea to South Africa (28.8%), groundnuts to Tanzania (49.2%) and sacks or bags made of textiles and used for packaging to Zambia (11.3%) in 2019.

According to the International Trade Centre (ITC)'s export potential tool, Malawi has untapped potential to export goods to Eastern Africa worth an additional \$80 million,⁵ to Southern Africa worth an additional \$50 million,⁶ to Central Africa worth \$0.9 million,⁷ to Northern Africa worth \$357,000⁸ and to Western Africa worth \$257,000⁹ (ITC, 2021b). In terms of categories of products that can be exported to meet the untapped potential in the regional African market, Malawi can export more of raw cane sugar, oilcakes, black tea and groundnuts to its partners (ITC, 2021b).

On the import side, Malawi's top five import sources from Africa were South Africa (61.2%), Zambia (13.1%), Tanzania (7.8%), Mozambique (4.7%) and Kenya (4.4%) in 2019. Its main intra-African imports were unused postage (6.9%), unmanufactured tobacco (5.3%), cement (3.5%), motor cars (2.9%) and organic surface-active agents (2.8%).

The trade-weighted tariff rates imposed by Malawi on its imports from African countries ranged from 25% for Cape Verde and Mali, to zero for 19 countries in the region.¹⁰ It also extends preferential tariffs to 18 countries that are also members of the different regional economic communities that Malawi is a signatory to. These include COMESA and SADC. Malawi is also party to a free trade agreement with Mozambique and South Africa, as well as a customs agreement with Botswana since the colonial period (WTO, 2016). As a result, the preferences under regional and bilateral agreements overlap, while the former are more relevant in determining rules of origin (WTO, 2016).

With the adoption of the AfCFTA, tariffs will be progressively liberalised in stages, barring products from the 'sensitive' and 'exclusion' lists. Tariffs will be liberalised (to zero) for 90% of tariff lines over a period of ten years for LDCs (least developed countries), including Malawi, and five years for non-LDCs (AfCFTA Secretariat, 2021). Sensitive products shall not exceed 7% of total tariff lines, while the exclusion list shall not exceed 3% of total tariff lines with an intra-Africa import value limit of not more than 10% (ibid.).

AHS is defined by the WITS database as the lowest existing preferential tariff rates or applied MFN tariffs. Figure 6 shows the top 15 imports by Malawi from African countries, which account for over 60% of Malawi's imports from the continent. It also shows that the AHS imposed by Malawi on imports from Africa are lower than the AHS imposed on imports from the rest of the world by, at most, 24.24% (on motor vehicles). Imports of chemicals (polymers and insecticides), petroleum oils and fertilisers attracted no tariffs, irrespective of their source (Figure 6).

⁵ Raw cane sugar, soybean oilcakes, groundnuts, cane sugar, black tea.

⁶ Black tea, oilcakes of soybean, plastic bags, groundnuts, other nuts and soybeans.

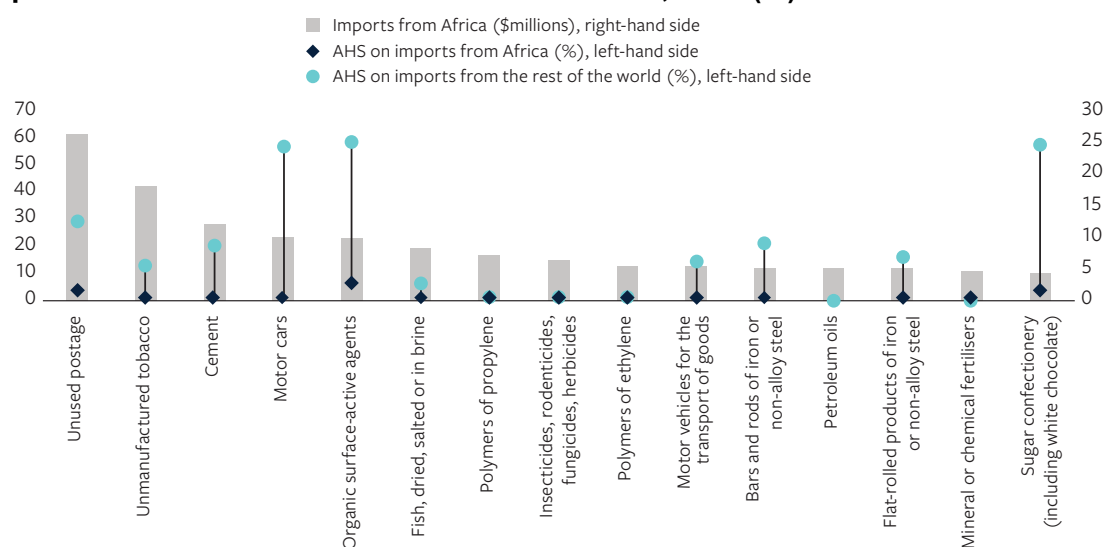
⁷ Plastic bags, cane sugar, rigid tubes, nuts and undenatured ethyl alcohol.

⁸ Raw cane sugar, fibreboard of wood, cane sugar, plywood and legumes.

⁹ Black tea, raw cane sugar, cane sugar, plastic bags and soybean oilcakes.

¹⁰ Based on World Trade Integrated Solutions (WITS) database.

Figure 6 Effectively applied tariff rates (AHS)* on Malawi's top imported products from the AU and the rest of the world, 2019 (%)



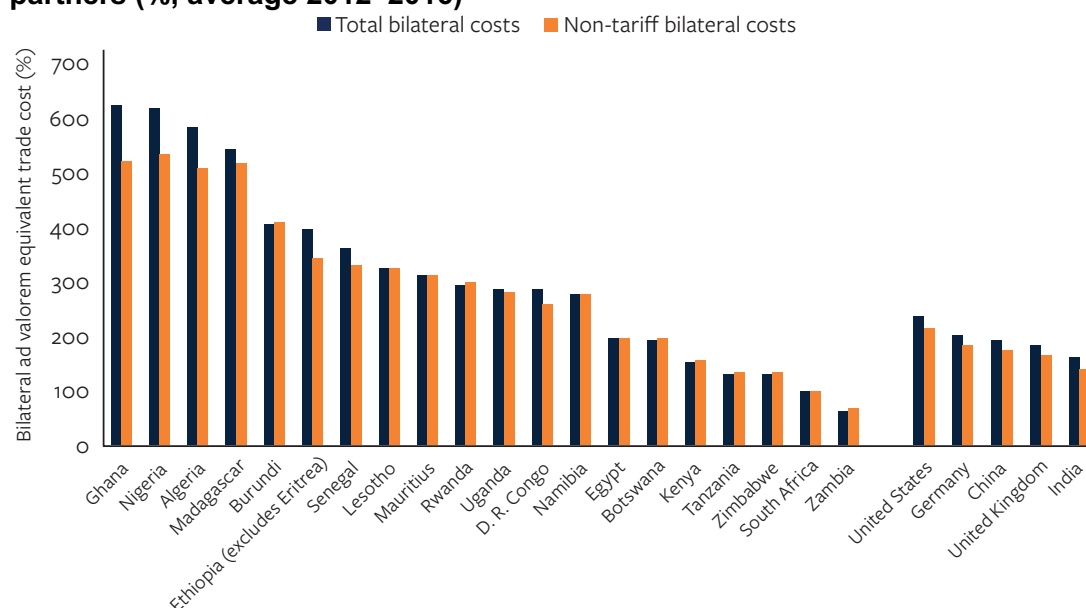
Source: World Trade Integrated Solutions database.

Non-tariff measures (NTMs) include technical measures, such as sanitary and phytosanitary, technical barriers to trade, pre-shipment inspection, as well as traditional instruments of trade policy, such as price and quality control and export restrictions, affecting trade in goods on both export and import sides. Figure 7 shows ad valorem equivalent¹¹ trade costs that incorporate not only international transport costs and tariffs but also other non-tariff trade costs, including direct and indirect costs associated with differences in languages, currencies and cumbersome import or export procedures.¹²

As expected, total bilateral costs are comprised almost entirely of non-tariff bilateral costs with major partners. For instance, total costs and non-tariff costs are equal for Burundi, Lesotho, Mauritius, Rwanda, Namibia, Egypt, Botswana, Kenya and Zimbabwe. Given that these countries are also members of SADC and COMESA (and enjoy preferential tariffs), trade with these regional partners is restricted only due to the presence of non-tariff trade costs. Hence, subsequent removal of non-tariff barriers could help Malawi's intra-Africa trade reach its full potential.

¹¹ Or as a proportion (percentage) of the estimated value of the goods.

¹² It should be noted that the measure is an average for all traded goods, some of which may not be traded (or very little) in practice due to prohibitively high trade costs. This measure, developed by the ESCAP and World Bank (2017), includes all costs involved in trading goods internationally with another partner (i.e. bilaterally) relative to those involved in trading goods domestically.

Figure 7 Bilateral ad valorem trade costs between Malawi and respective partners (% , average 2012–2016)

Source: World Bank database

Further, based on this measure, trade between Malawi and Ghana involves additional costs amounting to 622% of the value of goods traded between the two countries compared to domestic trade. In other words, it is six times cheaper for Malawi to conduct domestic trade (within its national borders) than with Ghana.¹³ By contrast, it is cheaper for Malawi to trade with South Africa and Zambia than domestically. It is also apparent that overall trade costs are lower with extra-regional partners than with most African countries.¹⁴ This indicates that intra-African trade is yet to reach its maximum capacity and is hindered by trade costs that can be addressed multilaterally or bilaterally. Interestingly, bilateral cost of trading with the US is comparable to trading with Namibia; costs with Germany are similar to Egypt; Chinese costs are closest to Botswana, etc. Among the selected partners, trading with India attracts the lowest trade costs, equivalent to 1.6 times domestic trading costs.

3.2 Status of Malawi's AfCFTA implementation

Malawi submitted its instrument of ratification¹⁵ of the African Continental Free Trade Area (AfCFTA) treaty on 15 January 2021, becoming the 35th member state to ratify the agreement (UNECA, 2021a). As of 4 October 2021, 41 countries have complied with their domestic requirements for ratification of the AfCFTA, 38 of which have deposited their instruments of ratification to the AU Commission (tralac, 2021), while Eritrea is yet to sign the agreement. As of March 2021, the AfCFTA secured 90% of

¹³ See Arvis et al. (2012) for full discussion of methodology.

¹⁴ Barring eight out of twenty-one countries available in the database.

¹⁵ The Ministry of Trade, along with the UNECA and AUC, organised pre-ratification workshops to engage with relevant stakeholders on AfCFTA issues and secure consent for Malawi to ratify the agreement (Africa News, 2019). For more information, see: <https://africanews.com/2019/09/17/malawi-hosts-african-continental-free-trade-area-afcfta-sensitization-workshops-in-lilongwe-and-blantyre/>. The implementation of the AfCFTA will start after its budget, which incorporates the AfCFTA ratification instrument, is passed into law. More information at: <https://www.uneca.org/stories/malawi%E2%80%99s-trade-ministry-%26-atpc-in-meetings-to-review-and-validate-its-afcfta-national>.

tariff offers and 34% of services offers (AU, 2021). Countries ratifying the agreement can trade with each other based on their tariff concessions and rules of origin. At the level of regional communities, COMESA established a partnership framework with the AfCFTA Secretariat in April 2021 to support AfCFTA implementation (Gakunga, 2021). The SADC Council of Ministers also noted that member states need to finalise negotiations on rules of origin on some sensitive tariff lines and agreement on some customs documentations to implement the AfCFTA (SADC, 2021).

A World Bank (2020) simulation suggests that Malawi can experience a 2% increase in real income,¹⁶ a 12.5% rise in total exports, 13.4% rise in total imports, and a 34% increase in intra-AfCFTA exports as compared to the baseline. However, trade expansion is likely to be limited as Malawi is already relatively open and liberalised pre-AfCFTA. It may also witness a decline in tariff revenue by approximately 2% compared to baseline in 2035 due to liberalisation of trade under the AfCFTA after five years when the sensitive products are liberalised. This is likely to turn into a loss in overall welfare in the medium and long term under the condition that tariffs on agricultural goods are also reduced in a phased manner.

With technical support from UNECA's African Trade Policy Centre (ATPC), Malawi will be able to benefit fully from the agreement, given that it improves the status of its trade-support institutions. The Ministry of Trade of Malawi has already organised workshops (under UNECA's support programme) with government officials, private sector players, as well as civil society organisations to support the formulation of the implementation strategy (UNECA, 2021b). Further support from the European Union is focused on helping Malawi open its markets, nurture industrialisation, promote exports and attract FDI (UNECA, 2021b).

The Ministry of Trade of Malawi has also emphasised the need for greater trade-related infrastructure to increase export productivity and create regional value chains (Nyasa Times, 2021). However, reservations remain on complete elimination of import duties, given that Malawi relies heavily on international trade taxes as a source of government revenue. Therefore, any tariff cuts are likely to have a negative impact, at least in the short-term. To counter this adverse impact, Malawi, along with other LDCs in Africa has asked for special and differential treatment in the implementation of the agreement (Ndonga et al., 2020). Moreover, the tariff reduction is likely to increase consumer consumption that can create additional demand for goods and services, both domestic and imported (Ministry of Trade, 2021).

The National Export Strategy of Malawi also emphasises the potential of the AfCFTA to help Malawian exporters explore business opportunities in Africa's promising market (CITC, 2020). The Malawian government has prepared the AfCFTA National Strategy which has been validated through a series of workshops with relevant stakeholders to increase ownership of the strategy and ensure its implementation (MW Nation, 2021b). The strategy identifies the following exports that could benefit from AfCFTA: tobacco, sugar, beverages, oilseeds, pulses, cereals, rice, maize for seed, fish, coffee extracts, wood and wood products, plastic products, tourism, telecommunication services, insurance and financial services, business services, accounting and engineering services (MW Nation, 2021a; Ministry of Trade, 2021). Further efforts to develop the service sector – especially

¹⁶ Under the scenario that AfCFTA is implemented with complete elimination of tariffs, non-tariff barriers and trade facilitation measures.

business, telecom, financial, tourism and transport – through targeted policies could help turn around the trade deficit in trade in services under the AfCFTA (MW Nation, 2021a).

With the passing of the 2021/22 national budget, Malawi has approved new tariffs under AfCFTA from 1 July 2021, under three categories: non-sensitive products that will experience a 50% drop in tariff rates, a sensitive category that will benefit from reduced duty after some time, and a third category where duties will not be reduced or removed¹⁷ (African Bulletin, 2021). Its tariff book has 7,800 products, of which, 90% are non-sensitive and include manufacturing products, given Malawi's infant manufacturing sector that faces little threat from imports. Malawi has also unveiled plans to roll out tax measures to facilitate greater regional integration including a duty-free week for imports not exceeding \$3,000 (African Bulletin, 2021). Additionally, the government also established an inter-ministerial trade committee, national working committee on export promotion, and the trade, industry and private sector development sector wide approach working group (TIPSWAP SWG) to support implementation and monitoring of AfCFTA (Ministry of Trade, 2021).

To hasten the implementation of the AfCFTA agreement, Malawi has also signed bilateral agreements with South Africa (Economic Memorandum of Understanding), Mozambique (Joint Permanent Commission of Cooperation), South Sudan (Memorandum of Understanding on Trade in agricultural and consumer goods, financed by the African Export–Import Bank), and Kenya (several cooperation agreements on fisheries and aquaculture, among others) (BEBA, 2021; Afrexim Bank, 2021). Malawi has also signed other plurilateral agreements to complement AfCFTA, including the Protocol on Free Movement of Persons and the Single African Air Transport Market (China Daily, 2021).

Moreover, private sector players under the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) have expressed their readiness to tackle the additional competition amid fears that Malawi's infant manufacturing industry will not be able to compete with imports from African partners (Malawi Times, 2021). The Ministry of Trade has also highlighted the role the private sector can play in value addition and production of high-quality products that can compete in the international market; this is achievable if the private sector invests more in modern technology to ensure quality control (Face of Malawi, 2021), and if the government invests more in small and medium enterprises (SMEs) (MW Nation, 2021c). Strategic and complementary national policies that promote agricultural productivity, skill development, value chain participation, greater ICT adoption and public–private partnerships can enhance the positive impact of AfCFTA and help Malawi experience its real trade- and growth-creating potential (Ministry of Trade, 2021).

¹⁷ According to the Ministry of Trade, 'non-sensitive' are products which the country does not manufacture while 'sensitive' products comprise those which the country manufactures but not in huge capacity. The third category will consist of products that the country manufactures, therefore imports are not needed.

4 Opportunities and challenges for Malawi's trade and investment

Based on the analysis of Malawi's macroeconomic performance, trade and investment landscape and AfCFTA implementation in previous sections, we summarise SWOT (strengths, weaknesses, opportunities and threats) considerations for Malawi's trade and investment prospects.

Strengths	<ul style="list-style-type: none"> • Growth in GDP by 0.8% despite the pandemic. • Greater political stability as compared to neighbours. • Access to both SADC and COMESA markets for exports. • Active government intervention to increase exports and FDI by offering PPP initiatives and financial assistance to set up; tax, labour and environmental reforms initiated by the government to attract FDI; streamlined investment establishment procedures such as its One-Stop Centre to aid new foreign investors. • Better performance than most African counterparts on obtaining permits, registering new property and enforcing contracts. • Early ratification of the AfCFTA, creation of a national strategy and implementation of a new tariff schedule. • Proactiveness displayed by the government by signing additional agreements to hasten implementation of the AfCFTA, including Protocol on Free Movement of Persons and the Single African Air Transport Market.
Weaknesses	<ul style="list-style-type: none"> • Dependence on rain-fed agricultural output for exports and growth. • Lack of diversified exports (ten products comprised 70% of total exports). • Landlocked geographical position, contributing to the country's reliance on neighbours for access to transit corridors and ports. • Highly informal economy. • Low access to electricity and other basic infrastructure (only 11% had access in 2019). • Lack of access to technology and innovation. • Widening fiscal deficit and growing debt. • Dependence on international trade taxes and import duties. • Public sector rife with corruption and low fiscal accountability.
Opportunities	<ul style="list-style-type: none"> • Diversify exports to include semi-manufactured and semi-processed goods, including those from agro-based industries. • Addressing non-tariff measures (either plurilaterally or bilaterally) could spur export growth with African partners. • Strategic preferential membership with several regional communities like COMESA and SADC that can be leveraged to capture continental markets. • Opportunity to grow intra-African trade by removal of non-tariff measures and reducing non-tariff trade costs. • Lucrative investment prospects in agro-based processing industries, mining of uranium and other metals, as well as textiles and garments manufacturing.
Threats (risks)	<ul style="list-style-type: none"> • Exposed to climatic conditions and international price volatility. • Recurring trade deficit with most trading . • Persistent and growing public debt and poor manageability. • High non-tariff trade costs with regional and extra-regional partners.

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