



# Malawi Country Report

## 1. Trade structure and patterns

### 1.1 Trade balance

Malawi's trade balance with the rest of the world has been sharply worsening since 1999 when the only positive balance was registered. The positive balance in 1999 was on account of a generally good agricultural season for most of the traditional export crops. However, the situation could not be sustained despite the continued depreciation of the Malawi Kwacha (MK) against the USA Dollar over those years and consequent increase in export earnings. The trade balance was worsened by a sharp increase in imports for two main reasons. Malawian importers took advantage of the depreciating South African Rand to import more goods and commodities while also taking advantage of the trade liberalisation policies adopted by Malawi. Hence the Malawi economy was slowly turning into a market place of finished imported goods. On the domestic side, agricultural inputs became expensive due to the depreciation of the Kwacha that made agricultural imports expensive for farmers hence imports grew faster than exports at 62.3% to 21.4% during the period, respectively. This translated into a worsening trade balance with South Africa from 1999 to 2003. During this period Malawi's exports and imports to South Africa accounted for 10.9% and 39.9% of total exports and imports to the rest of the world, respectively, (see table 1 below).

The trade balance with the rest of SADC countries has not been satisfactory over the period under review. Malawi registered positive balances in 1999 and in 2001 against negative balances in 2000, 2002 and 2003. These variations were largely due to inconsistent agricultural output due to variable weather patterns over the years since Malawi's agriculture is basically rain-fed as such is vulnerable to changes in weather patterns. This affected exports of major commodities and products while at the same time the country made massive imports of relief maize following poor food crop harvests. This worsened the trade balance as imports grew faster than exports at an average of 115.3% compared to 26.4%, respectively. As a share of total exports and imports, SADC exports and imports accounted for 18.1% and 12.8%, respectively, during the period 1999 to 2003. It is evident that Malawi's imports from South Africa alone were higher than that from the rest of SADC.

**Table 1:** Malawi's Trade Balance with the world, South Africa and RoSADC, 1999-2003 (USD).

	1999	2000	2001	2002	2003	growth
<b>Exports</b>	19284.34	22498.98	30931.96	29110.44	44779.87	21.44%
<b>Imports</b>	8755.31	32281.85	39480.94	53657.07	76651.38	62.37%
<b>Trade Balance</b>	10529.04	-9782.87	-8548.98	-24546.63	-31871.52	
<b>Exports to SA</b>	2088.78	1901.53	2742.92	4033.73	5616.50	31.39%
<b>Imports from SA</b>	2856.93	13222.00	17235.94	22243.85	30621.41	69.28%
<b>Trade Balance with SA</b>	-768.16	-11320.47	-14493.02	-18210.12	-25004.91	
<b>Exports to RoSADC</b>	3220.58	3795.54	5740.97	5703.28	8505.53	26.48%
<b>Imports from Ro SADC</b>	421.49	4038.03	5265.00	8522.47	13445.32	115.38%
<b>Trade Balance with SADC</b>	2799.09	-242.49	475.96	-2819.19	-4939.79	

## 1.2 Top 10 import sources and export destinations

SA is by far the main source of Malawi's imports representing 39.9% of total imports (see Table 2 below). It is followed by Zimbabwe (6.5%), United Kingdom (5.3%), Mozambique (5.3%) and United State (3.7%). Food items including agricultural products constitute the bulk of imports from South Africa and Zimbabwe. In addition, Malawi also imports a considerable amount of manufactured products from South Africa, being the main industrial hub of the SADC region. M

ore importantly, the exchange rate for the Rand against the Kwacha remained fairly stable but both depreciated against the US Dollar and the British Pound. This made imports from other regions more expensive compared to South Africa. The economic slowdown and depreciation of the Zimbabwe dollar also enhanced Malawi imports from that country.

Trade between Malawi and the two countries is also supported by bilateral trade agreements that have been in force for many years. (Details in section 5 below). The case of Mozambique as one of the leading import sources for Malawi has much to do with its picking up of economic activities after the civil war. The country is now Malawi's source of cereal imports and tobacco for processing and re-export.

On the other hand, the leading destinations for Malawi's exports are USA (12.7%), South Africa (12.5%), Kenya (8.2%) and United Kingdom (8.1%) (see table 2). The bulk of Malawi's exports to these countries are agricultural commodities with tobacco, sugar, tea, and apparel and clothing. Notably, Malawi exports within the SADC (excluding RSA) are quite negligible and yet Malawi imports significantly from the region.

**Table 2:** Top 10 sources of imports and destinations for exports

Imports			Exports		
Country	Share of total (%)	Value (K, million)	Country	Share of total (%)	Value (K, million)
South Africa	39.9%	30,621	Usa	12.7%	5,685
Zimbabwe	6.5%	4,996	Rsa	12.5%	5,616
United Kingdom	5.3%	4,078	Kenya	8.2%	3,682
Mozambique	5.3%	4,061	Uk	8.1%	3,606
India	4.8%	3,714	Germany	7.3%	3,281
Japan	4.2%	3,202	Netherlands	6.9%	3,097
United States	3.7%	2,874	Japan	5.8%	2,609
Zambia	2.8%	2,171	Egypt	3.9%	1,765
China	2.8%	2,147	France	3.3%	1,475
Saudi Arabia	2.5%	1,939	Belgium	3.0%	1,342

### 1.3 Exports and imports by region

Regionally the European Union is the main export destination for Malawi followed by SADC, Africa and NAFTA. Again, the SADC region tops the rank for Malawi imports providing over half of Malawi's imports at 57.5%. It is followed by Asia and the European Union. Most of the exports and imports with SADC are of course dominated by South Africa being the main trading partner for Malawi within the region. The Asian region has been a growing market for Malawi imports of petroleum products from Saudi Arabia, motor vehicles from Japan and other manufactured commodities from India and China.

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

Region	Export value (K, million)	Share of world trade	Import value (K, million)	Share of world trade
SADC	8,506	19.0%	44,067	57.5%
NAFTA	5,950	13.3%	3,454	4.5%
European Union	16,539	36.9%	9,241	12.1%
MERCOSUR	257	0.6%	1,141	1.5%
Japan	2,610	5.8%	3,202	4.2%
China	7	0.0%	2,148	2.8%
Africa	6,162	13.8%	1,601	2.1%
Oceania	432	1.0%	304	0.4%
Americas	238	0.5%	137	0.2%
Asia	1,669	3.7%	10,637	13.9%
Europe	2,409	5.4%	713	0.9%
other	0	0.0%	7	0.0%
Total	44,780	100.0%	76,651	100.0%

## 1.4 Fastest growing import and export partners

The fastest growing import and export destinations for Malawi are quite different from the traditional countries. Non of Malawi's traditional import or export countries seem to be growing fast enough but rather new emerging markets in Australia, middle east and other parts of Africa are now taking centre stage (see table 4). This can be explained by the effects of trade liberalisation and globalisation policies that have opened up new markets.

Actually, Mozambique is the only SADC country that appears on the list of fast-growing import partners for Malawi and yet there is no SADC country on the list of fast growing destinations for Malawian exports. Mozambique has become a major source of imports of cereals for Malawi. This raises questions as to whether the SADC arrangement is really yielding anything in terms of trade. One would have expected a number of SADC countries to appear among the fastest growing import or export partners considering the existing SADC Trade Protocol that has pushed for tariff liberalisation. It is worth mentioning that SA may not appear on these lists but the volume of trade between the two countries is already big and will remain so in the near future. The situation with Zimbabwe is difficult to interpret, considering the political and economical problems being faced by that country.

**Table 4:** Fastest growing trade partners

Exports			Imports		
Country	Total Trade (K,million)	% Growth	Country	Total Trade (K,million)	% growth
Ireland	419	629.6%	Australia	536	3228.7%
Russia	1,590	211.6%	Poland	339	1088.0%
Mexico	804	172.8%	Saudi Arabia	4,301	483.1%
Costa Rica	113	92.8%	Niger	74	364.2%
Kenya	6,056	92.8%	Mozambique	9,103	338.9%
Ukraine	537	92.8%	Lebanon	16	337.9%
Czech Republic	593	81.2%	Luxembourg	18	274.8%
Finland	69	70.2%	Egypt	363	250.9%
Austria	1,297	66.3%	Israel	237	231.3%
Nigeria	34	60.0%	Sri Lanka	15	226.2%

## 1.5 Commodity composition of trade

Malawi's profile of trade with the world and South Africa is similar in terms of exports but differs with that from SADC. Most manufactured goods are imported from South Africa and the world while agricultural commodities such as vegetables, animals, prepared foodstuffs and beverages are imported from the SADC. This reflects that SA and the world have a comparative advantage in the production of most manu-



factured goods over SADC. On the other hand, Malawi imports from the SADC are mainly commodity items reflecting a comparative advantage of SADC countries over South Africa and the world.

Malawi is predominantly an agricultural based economy and this is manifested in its export profile. The country exports mainly agricultural commodities to the world, tobacco, tea, and sugar being the main export commodities. This is reflected by the 72.7 % exports of prepared foodstuffs, beverages and tobacco to the world, 38.8% to South Africa and 27.3% to SADC (see table 6). With the export processing zones in textiles due to the AGOA initiative, Malawi has seen an increase in textile exports too. However, recently there has been a drop in textile exports following closures of some companies in the export processing zones and this may have something to do with the expiry of the MFA. Otherwise, Malawi's exports of other goods other than agricultural commodities are generally low. This trend is expected to improve in the near future with the current Government's pursuance of economic growth policies that favour export oriented manufactured goods.

**Table 5:** Commodity Composition of imports

Product	World		Rest of SADC		South Africa	
	Value (K)	Share of total	Value (K)	Share of total	Value (K)	Share of total
C01: Animals (live) and animal products; Section I	1,081	1.4%	500	3.7%	250	0.8%
C02: Vegetable products; Section II	3,953,441	5.6%	2,868,541	10.7%	3,826,558	3.1%
C03: Fats and Oils (animal or vegetable); Section III	538	2.8%	60	1.3%	69	0.9%
C04: Prepared Foodstuffs; Beverages; and Tobacco; Section IV	10,892,801	7.6%	79,387,747	35.5%	11,007,535	2.5%
C05: Mineral Products; Section V	962	13.7%	19	11.5%	642	23.1%
C06: Chemical products; Section VI	11,646,145	14.6%	72,867,144	10.5%	8,513,873	17.8%
C07: Plastics and Rubber; Section VII	342	5.2%	4	2.3%	237	6.6%
C08: Leather products; Section VIII	376,608	0.2%	670,616	0.0%	51,446	0.0%
C09: Wood products; Section IX	697	0.3%	150	0.7%	2,854	0.5%
C10: Paper products; Section X	6,393,763	5.8%	4,415,490	4.9%	536,504	5.0%
C11: Textile products; Section XI	785	6.5%	121	4.0%	1,320	2.3%
C12: Footwear; Headgear; and Umbrellas; Section XII	671,965	0.7%	720,477	0.7%	80,056	0.3%
C13: Stone; Cement; and Glass products; Section XIII	1,165	1.0%	222	1.2%	5,489	1.4%
C14: Pearls and precious stones; Section XIV	55,272	0.1%	437	0.0%	104	0.0%
C15: Metal Products; Section XV	80,453	5.8%	1,265,192	4.1%	23,023,113	7.8%
C16: Machinery; Section XVI	134,171	14.1%	602	5.7%	181	13.6%
C17: Vehicles; Aircraft; and Vessels; Section XVII	66,415	11.6%	351,891	1.6%	19,512,712	11.5%
C18: Photog instrmnts; Clocks; Musical instrmnts; Section XVIII	18,161	1.6%	117	0.3%	15	1.0%
C19: Arms and Ammunition; Section XIX	2,800	0.1%	116	0.0%	170,280	0.0%
C20: Furniture; Toys; and other products; Section XX	351,345	1.3%	1,546,385	1.3%	2,918	1.6%
C21: Works of Art and Antiques; Section XXI	25	0.0%	0	0.0%	586	0.0%
<b>Total</b>	<b>34,648,936</b>		<b>13,445</b>		<b>52,218,978</b>	

**Table 6:** Commodity composition of exports

	World		Rest of SADC		South Africa	
	Share of total	Value (K)	Share of total	Value (K)	Share of total	Value (K)
C01: Animals (live) and animal products; Section I	0.0%	0	0.0%	0	0.0%	0
C02: Vegetable products; Section II	3.2%	1432	15.4%	445	7.8%	437
C03: Fats and Oils (animal or vegetable); Section III	0.0%	5	0.1%	4	0.0%	1
C04: Prepared Foodstuffs; Beverages; and Tobacco; Section IV	72.7%	32566	27.3%	789	38.8%	2178
C05: Mineral Products; Section V	0.0%	10	0.3%	8	0.0%	1
C06: Chemical products; Section VI	1.1%	493	14.7%	424	0.3%	15
C07: Plastics and Rubber; Section VII	0.7%	330	4.8%	139	3.0%	168
C08: Leather products; Section VIII	0.1%	27	0.1%	4	0.0%	2
C09: Wood products; Section IX	0.4%	185	2.5%	71	1.8%	102
C10: Paper products; Section X	1.3%	591	18.5%	534	0.2%	14
C11: Textile products; Section XI	9.2%	4139	8.0%	231	29.7%	1668
C12: Footwear; Headgear; and Umbrellas; Section XII	0.0%	5	0.2%	5	0.0%	0
C13: Stone; Cement; and Glass products; Section XIII	0.1%	26	0.5%	15	0.1%	5
C14: Pearls and precious stones; Section XIV	1.2%	544	1.4%	39	1.6%	90
C15: Metal Products; Section XV	1.6%	729	1.8%	52	3.3%	187
C16: Machinery; Section XVI	0.1%	62	0.4%	12	0.6%	35
C17: Vehicles; Aircraft; and Vessels; Section XVII	0.0%	2	0.1%	1	0.0%	1
C18: Photo Instrmnts; Clocks; Musical Instrmnts; Section XVIII	8.0%	3573	3.4%	100	12.4%	694
C19: Arms and Ammunition; Section XIX	0.0%	0	0.0%	0	0.0%	0
C20: Furniture; Toys; and other products; Section XX	0.1%	49	0.5%	14	0.3%	18
C21: Works of Art and Antiques; Section XXI	0.0%	11	0.0%	1	0.0%	2
<b>Total</b>		<b>44780</b>		<b>2889</b>		<b>5616</b>

## 1.6 Fastest growing import and export commodities

### 1.6.1 Fastest growing export commodities

The fastest growing export commodities to the world from Malawi are quite mixed, and include vegetables commodities (reflecting the agricultural base of Malawi's economy), glass and glassware, precious stones and metals, and fabrics (reflecting the impact of the promotion of export goods other than the traditional agricultural commodities. The fast growth in commodities other than agricultural commodities is actually a positive direction that Malawi would like to go with the current threats to tobacco trade through the anti-smoking campaigns. This trend is likely to continue in the medium term as the Government continues with its efforts to diversify the economic base, with manufacturing and mining sectors ranking high as alternative engines for economic growth as stipulated in the Malawi Economic Growth Strategy (MEGS). The MEGS reflects Government and the private sector's (joint) realisation

that the economy had been growing too slowly to curb poverty. It was necessary to generate rapid broad-based economic growth through economic diversification. The objective was to expand the sectoral sources of growth while sustaining the gains from agriculture. Manufacturing, mining, textiles and garments, agro-processing and tourism were identified through a consultative process and analysis as alternative sources of growth for the economy in the medium term.

The results in Table 7 suggest that government is being somewhat successful in this approach. Most of the products in the table are growing very quickly, albeit off a very low base. The notable products are HS 62: Apparel articles and accessories and HS 31: Fertilizers. Malawi already has sizeable exports of these products but the growth in exports has been extremely fast. Most of the other fastest growing exports are manufactured commodities.

**Table 7:** Fastest growing exports to the world (Average growth rate 1999-2003)

<b>Product</b>	<b>Total exports (K, million)</b>	<b>% growth</b>
H70: Glass and glassware	43.5352	564.2%
H14: Vegetable plaiting materials, vegetable products	21.6019	363.8%
H71: Pearls, precious stones, metals, coins, etc	578.6869	288.8%
H95: Toys, games, sports requisites	7.6970	219.9%
H60: Knitted or crocheted fabric	25.8754	180.5%
H96: Miscellaneous manufactured articles	7.9754	166.6%
H38: Miscellaneous chemical products	17.6478	138.9%
H73: Articles of iron or steel	85.8694	124.0%
H34: Soaps, lubricants, waxes, candles, modelling pastes	355.4829	113.8%
H36: Explosives, pyrotechnics, matches, pyrophorics, etc	49.0101	111.4%
H69: Ceramic products	29.6698	108.2%
H46: Manufactures of plaiting material, basketwork, etc.	11.0995	97.0%
H15: Animal,vegetable fats and oils, cleavage products, etc	114.9067	95.0%
H90: Optical, photo, technical, medical, etc apparatus	3,598.3401	94.7%
H47: Pulp of wood, fibrous cellulosic material, waste etc	16.2890	81.9%
H31: Fertilizers	441.5063	79.1%
H30: Pharmaceutical products	104.3609	78.4%
H97: Works of art, collectors pieces and antiques	16.1814	71.9%
H62: Articles of apparel, accessories, not knit or crochet	6,473.1608	68.7%

Similarly, there is no significant difference between the fastest growing export commodities to SA and those to the world. Surprisingly, the fastest growing export commodities to the rest of SADC are not different from those to the world and SA. Pursuance of export-led growth and diversification of the economic base on Malawi's part and increased trade among SADC countries could perhaps be two reasons for this trend.

**Table 8:** Fastest growing exports South Africa (Average growth rate 1999-2003)

Product	Total exports (K, million)	% growth
H71: Pearls, precious stones, metals, coins, etc	10,973	688.7%
H70: Glass and glassware	2,880	621.5%
H17: Sugars and sugar confectionery	191,247	540.1%
H30: Pharmaceutical products	835	310.0%
H49: Printed books, newspapers, pictures etc	1,679	210.4%
H73: Articles of iron or steel	5,003	153.5%
H34: Soaps, lubricants, waxes, candles, modelling pastes	1,348	135.5%
H10: Cereals	4,489	101.7%
H90: Optical, photo, technical, medical, etc apparatus	70,561	90.3%
H69: Ceramic products	423	79.7%
H12: Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	61,536	72.7%
H82: Tools, implements, cutlery, etc of base metal	779	72.5%
H52: Cotton	121,402	69.2%

**Table 9:** Fastest growing exports to the rest of SADC (Average growth rate 1999-2003)

Product	Total exports (K, million)	% growth
H71: Pearls, precious stones, metals, coins, etc	39	843.9%
H70: Glass and glassware	9	354.7%
H83: Miscellaneous articles of base metal	2	350.6%
H97: Works of art, collectors pieces and antiques	2	292.2%
H28: Inorganic chemicals, precious metal compound, isotopes	6	272.7%
H20: Vegetable, fruit, nut, etc food preparations	12	266.4%
H47: Pulp of wood, fibrous cellulosic material, waste etc	14	151.4%
H69: Ceramic products	10	141.4%
H95: Toys, games, sports requisites	2	127.7%
H41: Raw hides and skins (other than furskins) and leather	6	123.0%
H34: Soaps, lubricants, waxes, candles, modelling pastes	339	120.8%
H38: Miscellaneous chemical products	8	114.4%
H36: Explosives, pyrotechnics, matches, pyrophorics, etc	47	109.0%
H21: Miscellaneous edible preparations	25	93.0%
H73: Articles of iron or steel	27	80.8%
H31: Fertilizers	431	77.6%
H63: Other made textile articles, sets, worn clothing etc	351	74.6%



## 1.6.2 Fastest growing import commodities

The fastest growing imports list for Malawi from the world has fertiliser as the first commodity basically due to the nature of the Malawi economy which currently depends heavily on agriculture (see table 10). During this period Government implemented targeted inputs programme whereby farmers were being provided with fertilizer among other inputs. This was aimed at reducing the impact of the rise in fertilizer prices on agricultural production in general and food security in particular. This triggered massive imports of fertilizers hence it ranks first on the list of fastest growing imports.

Similarly, ranking high on the list of fastest growing import commodities from SA is fertilisers for the same reason of targeted inputs programme. Over these years under review Malawi was unable to achieve food self sufficiency hence it had to import considerable amounts of cereals and milling products from other countries and SA was one of the major sources of these imports. This is why cereals imports rank high on the list too.

**Table 10:** Fastest growing imports from the world (Average growth rate 1999-2003)

Product	% growth	Total imports (K, million)
H31: Fertilizers	890.6%	9,627
H79: Zinc and articles thereof	591.9%	74
H41: Raw hides and skins (other than furskins) and leather	499.9%	38
H12: Oil seed, oleagious fruits, grain, seed, fruit, etc, nes	420.1%	967
H26: Ores, slag and ash	417.1%	6
H14: Vegetable plaiting materials, vegetable products nes	393.6%	6
H05: Products of animal origin, nes	311.1%	28
H01: Live animals	300.8%	173
H25: Salt, sulphur, earth, stone, plaster, lime and cement	272.5%	3,317
H07: Edible vegetables and certain roots and tubers	262.2%	427
H80: Tin and articles thereof	261.9%	53
H60: Knitted or crocheted fabric	261.6%	835
H30: Pharmaceutical products	231.0%	6,745
H49: Printed books, newspapers, pictures etc	230.3%	5,127
H10: Cereals	218.1%	8,710
H51: Wool, animal hair, horsehair yarn and fabric thereof	217.0%	42
H29: Organic chemicals	207.2%	957
H46: Manufactures of plaiting material, basketwork, etc.	205.8%	27
H59: Impregnated, coated or laminated textile fabric	197.6%	566
H74: Copper and articles thereof	194.1%	143

**Table 11:** Fastest growing imports from South Africa (Average growth rate 1999-2003)

Product	% growth	Total imports (K, million)
H31: Fertilizers	935.3%	6,194
H30: Pharmaceutical products	589.2%	943
H53: Vegetable textile fibres nes, paper yarn, woven fabric	378.2%	21
H05: Products of animal origin, nes	364.8%	23
H12: Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	356.2%	398
H10: Cereals	315.9%	1,974
H27: Mineral fuels, oils, distillation products, etc	281.2%	16,718
H11: Milling products, malt, starches, inulin, wheat gluten	279.1%	2,103
H60: Knitted or crocheted fabric	249.5%	182
H25: Salt, sulphur, earth, stone, plaster, lime and cement	243.0%	776
H54: Manmade filaments	233.6%	140
H52: Cotton	223.6%	400
H55: Manmade staple fibres	219.1%	566
H06: Live trees, plants, bulbs, roots, cut flowers etc	216.6%	3
H80: Tin and articles thereof	205.8%	8
H74: Copper and articles thereof	183.2%	47
H29: Organic chemicals	178.4%	407
H79: Zinc and articles thereof	178.3%	2
H15: Animal, vegetable fats and oils, cleavage products, etc	173.8%	1,331
H35: Albuminoids, modified starches, glues, enzymes	173.6%	161

As explained earlier, Malawi's approach to trade liberalisation was quite different from many countries because the country adopted full liberalisation by 1999. This had more to do with donor pressure especially the IMF and World Bank. The implementation of this policy turned Malawi into a market place for cheap imports. This explains why there are many emerging import commodities other than the traditional imports of necessities such as pharmaceuticals.

The fastest growing imports from the rest of SADC unlike those from the world and SA are mainly agricultural commodities. Basically the reasons are the same as those provided above. There is a complete difference from the fastest growing import and exports to and from SADC (see tables 9 and 12). Apart from fertilisers, pharmaceuticals and manufacturing inputs, Malawi imports primary agricultural commodities from SADC. On the other hand Malawi is exporting high value primary commodities. The majority of the fastest growing commodities in the table come off a low base.

**Table 12:** Fastest growing imports from the RoSADC (Average growth rate 1999-2003)

Product	% growth	Total imports (K, million)
H51: Wool, animal hair, horsehair yarn and fabric thereof	825.9%	17
H10: Cereals	701.1%	3,242
H11: Milling products, malt, starches, inulin, wheat gluten	534.2%	1,440
H31: Fertilizers	458.8%	314
H49: Printed books, newspapers, pictures etc	434.3%	176
H23: Residues, wastes of food industry, animal fodder	414.1%	250
H12: Oil seed, oleagc fruits, grain, seed, fruit, etc, nes	392.2%	154
H30: Pharmaceutical products	392.1%	664
H06: Live trees, plants, bulbs, roots, cut flowers etc	365.0%	4
H05: Products of animal origin, nes	352.9%	1
H24: Tobacco and manufactured tobacco substitutes	344.3%	7,318
H74: Copper and articles thereof	321.4%	81
H01: Live animals	318.4%	80
H09: Coffee, tea, mate and spices	312.4%	77
H60: Knitted or crocheted fabric	294.4%	11
H25: Salt, sulphur, earth, stone, plaster, lime and cement	285.1%	2,424

## 2. Trade intensity with the SADC region

The trade intensity indices presented in table 13 below are significantly above 1 for both exports and imports. This means Malawian traders prefer trading with SADC countries as compared to the world in general or the other way round that SADC consumers prefer Malawian goods to those from the world. This could have something to do with the nature of Malawian exports that would tend to find the SADC market easier to penetrate compared to other markets in the world. Basically, in terms of comparative advantage Malawian products and commodities fare better with SADC than with the rest of the world. The indices for exports are more significant than those for imports for both years. This implies that Malawian consumers prefer goods from SADC other than those from the rest of the world but this preference is less pronounced than the preference by SADC consumers for Malawian goods.

**Table 13:** Trade intensities for exports and imports in 2002 and 2003

	Exports	Imports
2002	56.48	18.45
2003	57.55	15.29

### 3. Intra-industry trade

Intra-industry trade (IIT) between Malawi and the world is small because it is difficult to establish relationships within industries. The export processing zone in garment manufacturing is one particular case where a strong relationship exists between industries in Malawi and those from the world. The main factor is that of the AGOA arrangement where industries in Malawi are contracted to produce specific clothing products. In addition, Malawi has a lot of industries whose parent companies are foreign hence the local industries are basically packing and reselling imported products from their parent companies. It is important to note also that a lot of Malawian traders do enter into arrangements with foreign industries to sell their products. Otherwise it is quite difficult to pick up clear cases where inter-industry trade is really taking place or whether it is a case of product dumping which of course cannot be ignored. Perhaps a good example of IIT in Malawi with the world would be that of PEW Ltd, a bus manufacturing company, which imports the engine and chassis of the buses into Malawi and assembles the body of the buses. The weighted average IIT with the world is significantly low at 0.12 pointing to the fact that there is indeed minimal intra-industry trade between Malawi and the world. One would expect more IIT in goods where branding is important. This is not the case in the commodities that Malawi exports, hence the low levels of IIT. There is little reason to expect that there would be real IIT in the goods listed in the table below. It is more likely that the IIT reflected here is the result of measurement errors.

**Table 15:** Intra-industry trade with South Africa: Top 15 commodities (HS4)

	<b>Commodity</b>	<b>Grubel-Lloyd index</b>	<b>Total Trade</b>
1	H6310: Used and new rags or scrap of textile material	0.98	1,543,768
2	H2530: Mineral substances, nes	0.97	1,951,097
3	H8462: Machine-tools for forging, die-stamping, bending metal	0.95	10,751,576
4	H8520: Electronic sound recording equipment	0.85	907,421
5	H9021: Orthopaedic appliances	0.82	3,344,854
6	H9105: Other clocks	0.76	1,894,553
7	H9616: Scent, toilet sprays, puffs and pads for cosmetics	0.70	28,672
8	H8441: Machinery for paper pulp, paper, paperboard making nes	0.68	3,780,853
9	H8479: Machines nes having individual functions	0.68	44,973,190
10	H2306: Oil-cake other than soya-bean or groundnut	0.67	10,356,936
11	H6103: Mens, boys suits,jackets,trousers etc knit or crochet	0.66	12,779,602
12	H7001: Glass cullet, waste or scrap, glass in the mass	0.64	214,319
13	H9701: Paintings, drawings, pastels, collages etc, hand made	0.64	2,589,273
14	H6214: Shawls, scarves, mufflers, mantillas, veils etc	0.63	3,325,188
15	H1515: Fixed veg fat, oil, fractions, not chemically modified	0.59	1,838,076



The nature of intra-industry trade with SA is not that different from that with the world because industries in Malawi look up to SA industries in the same way as those from the developed world. Apart from the few isolated cases, one wonders if real IIT does actually occur. A typical case would be that of petroleum products such as petrol that is sold in Malawi. Petrol is supplied into Malawi by BP SA to BP Malawi which blends the product with ethanol that is produced in Malawi. One wonders whether this is indeed intra industry trade or it is basically expansion of operations of parent foreign company into Malawi perhaps taking advantage of the trade liberalisation and globalisation policies. The weighted average IIT with South Africa is actually very insignificant at 0.02 emphasizing that there is no really established intra-industry trade between Malawi and SA. Surprisingly the weighted average is substantially lower than that with the world yet SA ranks high as a major source of imports and destination for exports. Comparing the two weighted averages it means there are more gains for Malawi in pursuing intra-industry trade with the world than with SA.

**Table 16:** Intra-industry trade with the RoSADC: Top 15 commodities (HS4)

Commodity	Grubel-Lloyd index	Total Trade
1 H3908: Polyamides in primary forms	1.00	26,000
2 H2208: Liqueur, spirits and undenatured ethyl alcohol <80%	0.99	9,588,183
3 H8207: Interchangeable tools and dies for hand or power tools	0.98	1,008,151
4 H2942: Organic compounds, nes	0.96	230,367
5 H5303: Jute, other bast fibre, raw or processed, not spun	0.92	283,384
6 H6209: Babies garments and clothing accessories	0.91	72,808
7 H2207: Ethyl alcohol, undenatured and > 80%, or denatured	0.91	1,228,918
8 H8408: Compression-ignition engines (diesel etc)	0.88	267,578
9 H9504: Articles for funfairs, table and parlour games	0.86	1,026,372
10 H2507: Kaolin and other kaolinic clays	0.85	299,350
11 H9503: Other toys, scale models, puzzles, etc	0.85	992,182
12 H6111: Babies garments, clothing accessories, knit or crochet	0.84	99,278
13 H7004: Drawn or blown glass, in sheets	0.81	62,028
14 H6117: Clothing accessories or parts nes, knit or crochet	0.80	1,668,732
15 H7323: Table, kitchen, household items of iron or steel nes	0.80	1,559,633

Intra-industry trade with the rest of SADC is rather different from that with the world and SA. IIT with SADC represents trade between industries operating within a similar economic environment. This brings in the element of brand competition among industries producing similar products. The IIT indices for the SADC are actually quite higher than those for South Africa. This does reflect the magnitude of IIT in SADC to be higher than that with SA. The goods traded are quite similar



hence competition is stiff for the limited markets. The high indexes for the SADC means that there are more gains for Malawian industries to engage in trade with SADC industries than would be the case with SA. Due to the technological superiority of SA industries, Malawian firms find it difficult to compete with industries from SA. The weighted IIT average with SADC though insignificantly low at 0.06 is still higher than that for RSA at 0.02 meaning that there are more gains in intra-industry trade with SADC than is the case with SA.

#### 4. Trade agreements planned and in force

Malawi has trade agreements with South Africa, Botswana and Zimbabwe. Currently there are proposals to review the agreements in view of the problems that are being faced mainly regarding the rules of origin and the existence of non-tariff barriers. Other bilateral trade agreements are in draft stage and these are with Mozambique, Tanzania, Zambia and Namibia. Malawi is also a member of the regional groupings of SADC and COMESA. In addition, Malawi is also party to the multilateral agreements of WTO, AGOA, EBA, and EU-ACPotonou.

#### 5. Revealed comparative advantage

Malawi has comparative advantage in its traditional agricultural commodities and primary products (see table 14). Considering that Malawi is still a least developed country it is very unlikely that its comparative advantage will change in the near future.

However, this is the direction the country intends to go as enshrined in the Malawi Economic Growth Strategy which puts more emphasis on manufacturing among other potential sectors. This poses a big challenge on the ability of Malawi to penetrate markets especially those of the developed world.

Perhaps import substitution may be a possibility but again trade liberalisation and globalisation will still provide challenges to local manufacturing industries. Malawi has a comparative advantage in a small number of goods, only 11 of 97 HS 2 groups. This narrow comparative advantage is consistent with other SADC economies which are heavily dependent on mineral exports.

**Table 17:** Revealed comparative advantage with respect to the world: Top 20 commodities (HS2)

HS code	Product	Index value
	Tobacco and manufactured tobacco substitutes	205.65
	Sugars and sugar confectionary	57.07
	Coffee, tea, mate & spices	53.59
	Apparel articles and accessories, not knit etc.	2.05
	Edible fruit & nuts; citrus fruit or melon peel	1.81
	Edible vegetables & certain roots & tubers	1.73
	Oil seeds etc.; misc grain, seed, fruit, plant etc	1.23
	Live trees, plants, bulbs etc.; cut flowers etc.	1.22
	Apparel articles and accessories, knit or crochet	1.20
	Cotton, including yarn and woven fabric thereof	1.11
	Mfr of straw, esparto etc.; basketware & wickerwork	0.65
	Raw hides and skins (no furskins) and leather	0.46
	Cereals	0.46
	Rubber and articles thereof	0.27
	Wood and articles of wood; wood charcoal	0.17
	Miscellaneous chemical products	0.16
	Fish, crustaceans & aquatic invertebrates	0.10
	Textile art NESOI; needlecraft sets; worn text art	0.10
	Copper and articles thereof	0.09
	Food industry residues & waste; prep animal feed	0.08

**Table 18:** Revealed comparative advantage with respect to the world: Bottom 20 commodities (HS2)

HS code	Product	Index value
	Paper & paperboard & articles (inc papr pulp artl)	0.01
	Essential oils etc; perfumery, cosmetic etc preps	0.01
	Articles of iron or steel	0.01
	Vehicles, except railway or tramway, and parts etc	0.01
	Miscellaneous articles of base metal	0.01
	Beverages, spirits and vinegar	0.01
	Toys, games & sport equipment; parts & accessories	0.01
	Salt; sulphur; earth & stone; lime & cement plaster	0.01
	Optic, photo etc, medic or surgical instrments etc	0.01
	Wood pulp etc; recovd (waste & scrap) ppr & pprbd	0.01
	Electric machinery etc; sound equip; TVEquip; pts	0.01
	Works of art, collectors' pieces and antiques	0.01
	Tanning & dye ext etc; dye, paint, putty etc; inks	0.01
	Wadding, felt etc; sp yarn; twine, ropes etc.	0.00
	Inorg chem; prec & rare-earth met & radioact compd	0.00
	Mineral fuel, oil etc.; bitumen subst; mineral wax	0.00
	Footwear, gaiters etc. and parts thereof	0.00
	Plastics and articles thereof	0.00
	Pharmaceutical products	0.00
	Ships, boats and floating structures	0.00

## 6. Revealed trade barriers

SADC has significantly low trade barriers for some agricultural commodities especially coffee, tea, tobacco and sugar produced in Malawi (see, for example, table 19 below). The main reason is that these commodities are Malawi's major export commodities and Malawi has a comparative advantage in producing these commodities. However, this may not be a conclusive reason because an analysis of tariffs has not been done. Nevertheless commitment to the SADC trade protocol and bilateral trade agreements that Malawi has with other SADC countries may play a role in this. However, there are still revealed trade barriers with respect to most of Malawi's manufactured goods in SADC.

The low values of the revealed trade barrier index probably reflect a lack of capacity in Malawi, as much as trade barriers in the region. As mentioned above, Malawi only has a narrow comparative advantage and does not produce many goods. This is reflected in table 20.

**Table 19:** Revealed trade barriers with respect to SADC: Top 20 commodities (HS2)

HS code	Product	Index value
	Coffee, tea, mate & spices	72.3
	Tobacco and manufactured tobacco substitutes	36.8
	Sugars and sugar confectionary	26.4
	Apparel articles and accessories, not knit etc.	14.7
	Cotton, including yarn and woven fabric thereof	13.7
	Oil seeds etc.; misc grain, seed, fruit, plant etc	10.3
	Apparel articles and accessories, knit or crochet	6.8
	Rubber and articles thereof	3.4
	Edible fruit & nuts; citrus fruit or melon peel	2.4
	Edible vegetables & certain roots & tubers	2.1
	Wood and articles of wood; wood charcoal	2.0
	Cereals	1.3
	Copper and articles thereof	1.2
	Food industry residues & waste; prep animal feed	1.0
	Textile art NESOI; needlecraft sets; worn text art	0.9
	Explosives; pyrotechnics; matches; pyro alloys etc	0.9
	Soap etc; waxes, polish etc; candles; dental preps	0.7
	Aluminium and articles thereof	0.6
	Fertilizers	0.5
	Mfr of straw, esparto etc.; basketware & wickerwrk	0.4



**Table 20:** Revealed trade barriers with respect to SADC: Bottom 20 commodities (HS2)

HS code	Product	Index value
	Mineral fuel, oil etc.; bitumen subst; mineral wax	0.1
	Nat etc pearls, prec etc stones, pr met etc; coin	0.0
	Prep cereal, flour, starch or milk; bakers wares	0.0
	Wadding, felt etc; sp yarn; twine, ropes etc.	0.0
	Footwear, gaiters etc. and parts thereof	0.0
	Art of stone, plaster, cement, asbestos, mica etc.	0.0
	Inorg chem; prec & rare-earth met & radioact compd	0.0
	Miscellaneous chemical products	0.0
	Plastics and articles thereof	0.0
	Pharmaceutical products	0.0
	Works of art, collectors' pieces and antiques	0.0
	Raw hides and skins (no furskins) and leather	0.0
	Manmade filaments, including yarns & woven fabrics	0.0
	Leather art; saddlery etc; handbags etc; gut art	0.0
	Tools, cutlery etc. of base metal & parts thereof	0.0
	Optic, photo etc, medic or surgical instrments etc	0.0
	Electric machinery etc; sound equip; TVEquip; pts	0.0
	Toys, games & sport equipment; parts & accessories	0.0
	Ships, boats and floating structures	0.0
	Beverages, spirits and vinegar	0.0

