Policy brief

Malawi: macroeconomic and trade profile

Opportunities and challenges towards implementation of the AfCFTA

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Key messages

- Overlapping shocks from Covid-19, Russia–Ukraine war spillover effects and adverse weather conditions have hurt the Malawian economy. From 5.4% in 2019, GDP growth slowed to 0.9%, 2.2% and 0.9% (estimated) in 2020, 2021 and 2022, respectively. Macroeconomic stability is under severe pressure, from double-digit inflation, sharp currency depreciation, foreign reserve depletion and high-risk debt distress. Malawi secured $88.3 million financing under the IMF's Food Shock Window in November 2022. Debt restructuring negotiations are ongoing and may help unlock higher IMF financing that is needed to address balance of payments needs.
- Malawi is a net importer of goods and services. The importance of trade (as share of GDP) has been declining, from 66% in 2013 to 35% in 2020. The country has an undiversified export basket, with more than half made up of tobacco between 2016 and 2020. However, there is room to support the exporting of plastic packaging, manufactured wood products, soya bean oil and nuts, given increasing Malawian efficiency in and world demand for these products.
- FDI inflows have been volatile, driven by one-off large investment projects rather than consistent flows over time. Weak governance, an infrastructure deficit, foreign exchange shortages and low-skilled labour challenge the business environment.
- Malawi has been a net importer of goods from other African countries, with the trade deficit with Africa reaching $670 million in 2020. On average between 2016 and 2020, around a third of Malawi's exports were destined for African countries (34%), and a similar share of goods imports (31%) originated from the continent.
- Malawi has backtracked to review its initially submitted tariff offers to the AfCFTA Secretariat, and is yet to have meaningful trade under the AfCFTA. To start harnessing gains from the AfCFTA, Malawi may need to expedite simultaneous efforts on addressing structural and legal gaps that impede AfCFTA participation, finalising its tariff offers and completing and implementing its AfCFTA strategy.

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About this publication

This brief aims to inform relevant stakeholders, including the private sector and non-AfCFTA experts, on Malawi's current economic situation and its implementation of the AfCFTA. It represents an update of the first edition of a brief on Malawi's macroeconomic and trade profile published by ODI in February 2022 and authored by Prachi Agarwal. Data and information for this update were collected between January and February 2023.

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

Disclaimer: The content of this publication was 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

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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. The country has one of the highest poverty rates worldwide, with more than 70% of the population living on less than $2.15 purchasing power parity (PPP) a day as of 2019 (Table 1), and low levels of human development (ranking 169th of 190 countries on the Human Development Index) as of 2021 (UNDP, 2022). The country had relatively higher shares of gross domestic product (GDP) from services (52.4%) and industry (18.4%) as of 2021 (World Bank, 2022c). However, 76% of total employment remained concentrated in the agriculture sector as of 2019, potentially driven by the 82% of the population living in rural areas as of 2021 (ibid.). Heavily dependent on rain-fed agriculture to maintain food security (WTO, 2016), Malawi has been vulnerable to adverse weather conditions and climate change effects.

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 1,026.4 = US$1 as of 10 February 2023			
	2000	**2010**	**2021/latest**
Population (million)	11.1	14.5	19.6
Dependency ratio (%)[1]	90.7	90.9	77.5
Life expectancy (years)	44.5	56.4	62.9
Mean years of schooling	2.8	4	4.5
Gross national income per capita (constant 2017 PPP$)	1,102.2	1,344.1	1,475.4
Poverty rate (% of population below national poverty line)	68.9[2]	68.4	70.1[3]
Unemployment rate (%)	5.8	5.9	7.0
Gender Inequality Index[4]	0.68	0.6	0.55
Human Development Index[5]	0.37	0.46	0.51

Notes: 1 dependency ratio of the young (0–14 years old) to the working-age (15–64 years old) population; 2 as of 2004; 3 as of 2019; 4 higher score = higher gender inequality; 5 higher score = better human development.
Sources: UNDP (2022); World Bank (2022c); RBM website.

In 2020, the global impacts of Covid-19 hurt Malawi's economic growth, through reduced exports of Malawi's cash crops (e.g. tobacco, sugar, coffee, cotton and tea) owing to subdued international demand, reduced tourism receipts and low investment inflows (AfDB, 2021; World Bank, 2020a). In response, the government increased its expenditure by 3.9% of GDP to mitigate the health and economic impacts of the pandemic, which contributed to a widening fiscal deficit and the accumulation of public debt. Overall output (GDP) slowed to 0.9% from 5.4% in 2019 (Table 2).

In 2021, Malawi's GDP growth remained lower than pre-pandemic levels, at an estimated level of between 2.2% (IMF, 2022a) and 2.8% (World Bank, 2023). The subdued growth owed largely to dry spells and multiple tropical storms that decreased crop yields and damaged farmlands and infrastructure (World Bank 2022a).

By 2022, the spillover effects of the Russia–Ukraine war on global commodity prices had induced increases in the prices of food (mainly in maize) and non-food items (mainly transport and utilities), exacerbated by the devaluation of the Malawi kwacha and a shortage of foreign currency that impeded imports (World Bank, 2022a). As of October 2022, foreign reserves were equivalent to only 1.3 months of import cover (Engel et al., 2022). Over 2022, higher-than-forecast inflation reached 21%, compared with 9.3% in 2021 (RBM, 2023; Table 2). The high prices combined with lower yields are pushing Malawian families into food insecurity (Engel et al., 2022).

By November 2022, the International Monetary Fund (IMF) assessed Malawi’s overall and external debt to be in distress (IMF, 2022b). Reports suggest that Malawi’s government started its debt restructuring negotiations with its commercial creditors during the same month (Reuters, 2022). The Reserve Bank of Malawi (RBM) estimates 1.2% GDP growth for 2022 (RBM, 2023), higher than the IMF and the World Bank projections at 0.9% (Engel et al., 2022; IMF, 2022a). Malawi’s medium-term GDP growth up to 2025 is expected to remain subdued and below pre-pandemic levels (Table 2).

Table 2 Selected macroeconomic and financial sector performance and forecast in Malawi

	2019	2020	2021	2022f[4]	2023f	2024f	2025f
Real GDP (% growth)	5.4	0.9	2.2	0.9	2.5	3.2	3.9
Total investment (% of GDP)	7.9	7.5	9.2	10.5	11.7	11.9	10.8
Average consumer prices (% growth)	9.4	8.6	9.3	18.4	16.5	12.6	8.7
Government revenue (% of GDP)	14.8	14.5	15.6	16.5	17	18	18
Government expenditure (% of GDP)	19.3	22.7	24.6	23.6	24.9	24.9	24.2
Gross fiscal balance (% of GDP)	-4.5	-8.2	-8.9	-7.1	-8	-6.8	-6.2
Primary fiscal balance (% of GDP)	-1.5	-5	-4.8	-2.3	-1.8	-0.3	0.5
Gross government debt (% of GDP)	45.3	54.8	63.9	73.3	74.5	75.2	75.2
Current account balance (% of GDP)	-12.6	-13.8	-12.2	-12.1	-12.9	-13.1	-13

Note: f indicates forecast by the IMF as of October 2022.
Source: IMF (2022a).

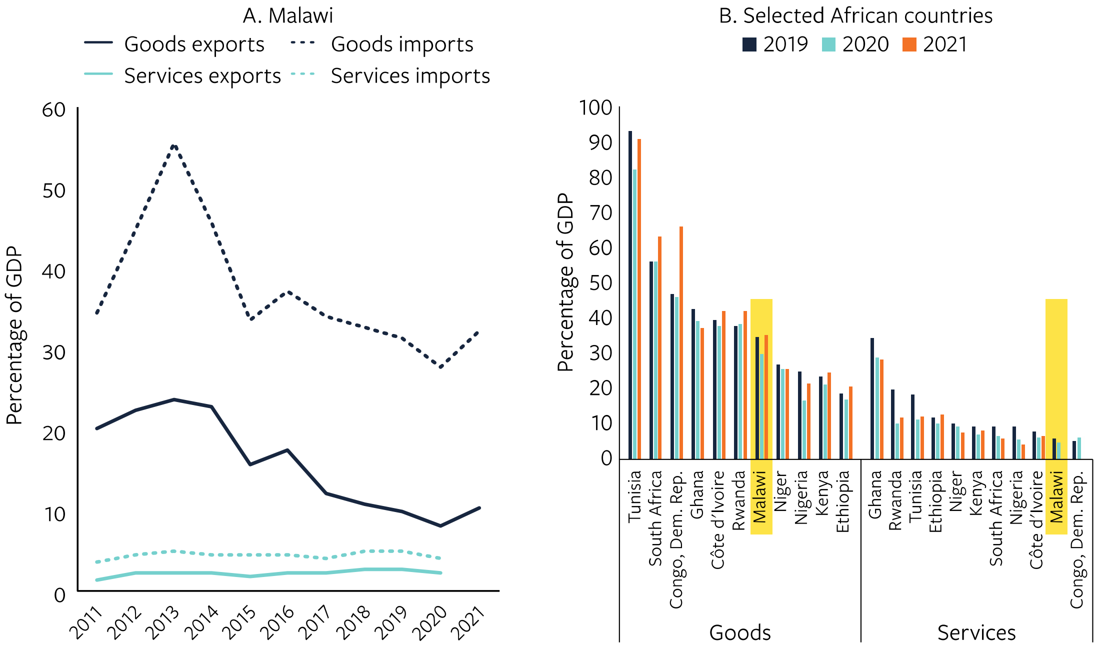
Against this backdrop, the next section presents Malawi’s trade landscape and business environment (Section 2), followed by a more focused discussion on Malawi’s intra-African trade, and progress on AfCFTA implementation (Section 3). Section 4 identifies Malawi’s strengths, weaknesses, opportunities and threats to maximise benefits from the AfCFTA, and trade and investment more generally. Section 5 concludes.

2 Trade landscape and business environment

2.1 Trade landscape

Malawi has been a net importer of goods and services, with total trade (exports+imports) reaching nearly 35% of GDP as of 2020.[1] In the past decade, the importance of total trade in goods in terms of the proportion of GDP has been declining from a peak of 66% of GDP in 2013, while that of trade in services has remained relatively stagnant at around 5% of GDP (see Figure 1a). While total trade declined during the pandemic in 2020, latest available data for goods trade suggest a recovery in 2021 that surpassed pre-pandemic 2019 levels. Compared with other countries in Africa, Malawi lies in the middle of the pack for trade in goods (% of GDP) but displays one of the lowest shares in terms of trade in services (% of GDP) (Figure 1b).

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



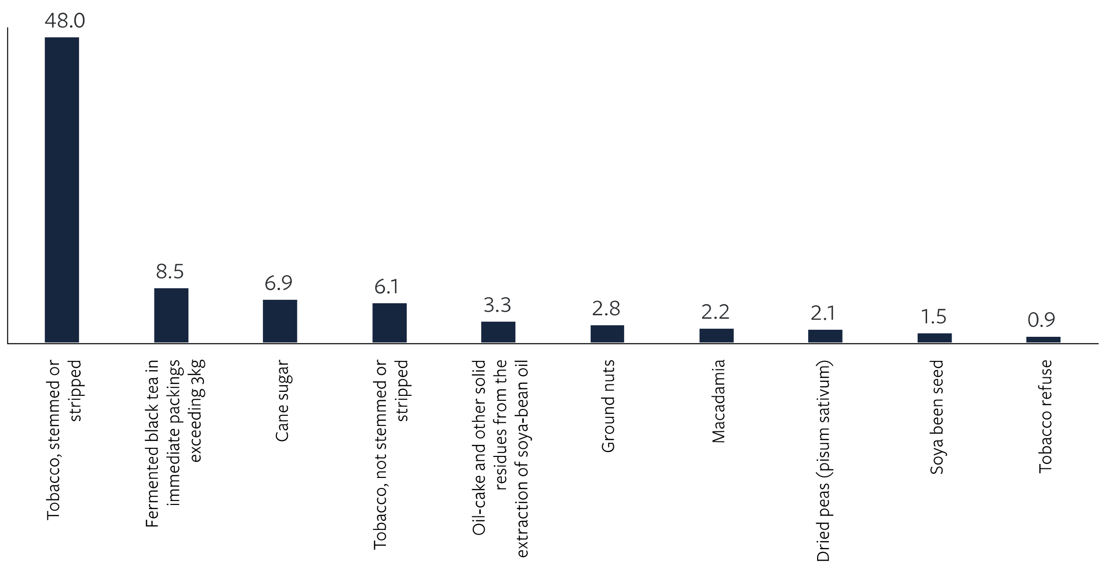
Source: Author's computations based on UNCTAD data.

Malawi's goods exports have traditionally been dominated by tobacco, which comprised more than 50% of its total goods exports between 2016 and 2020 (Figure 2). The decline in overall exports may have been driven largely by declining exports of tobacco (a major export), with values registering a contraction by 20% between

[1] Author's computations based on UNCTAD data.

2016 and 2020 in nominal terms[2] and by 42% between 2016 and 2021 in real terms based on World Bank estimates (Engel et al., 2022). This has macroeconomic stability implications, given tobacco's dominance of exports, and the fact that the sector employs small-scale and commercial farmers throughout the country (MITC, nda). The second largest export is black tea (with an 8.5% share of total goods exports between 2016 and 2020), followed by cane sugar, soya bean cake oil, nuts (groundnut and macadamia), peas and soy bean seeds (Figure 2). With the exception of peas, exports of all nine top products witnessed positive growth in the same period (Figure 2). The top five destinations for Malawi's goods exports from 2016 to 2020 were Belgium (18.3% share), South Africa (7.7%), the US (5%), Egypt (4.9%) and China (4.3%).

Figure 2 Malawi's top 10 export products and destinations, 2016–2020 (average)



Source: Author's computations based on WITS data (6-digit product category).

Malawi is importing a diversified set of goods. The top five imported products, comprising 25% of imports between 2016 and 2020, were light petroleum oils (mainly from the United Arab Emirates (UAE) and Kuwait), unused postage (from South Africa and the UK), medicaments for therapeutic or prophylactic uses (India), fertilisers (China) and used/pre-owned clothing articles (China). Notably, 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.[3]

More than half of Malawi's total imports were sourced from South Africa (18.2%), China (15%), India (9.6%), UAE (8.8%) and the UK (6.2%) in the period 2016–2020. Other important regional import sources were Southern African Development Community (SADC) members: Zambia (4.9%), Mozambique (1.9%), Tanzania (1.9%) and Zimbabwe (0.9%).[4] Section 3 presents more details on Malawi's intra-African trade.

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

[2] Author's computations based on UNCTAD data.
[3] Author's computations based on WITS data.
[4] Author's computations based on WITS data.

engaging with new markets (MITC, 2016). To identify products for export diversification, we examine the revealed comparative advantage (or RCA) of and world demand (from all countries) for Malawi's top 25 exported products (accounting for 87.9% of its total exports) in the past five years (i.e. 2016–2020). Table 3 presents the Malawian products that can be supported through export promotion or intervention to increase competitiveness.

Table 3 Global 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	• polyethylene or polypropylene sacks or bags for packing of goods • plywood, veneered panels and similar laminated wood • medium-density fibreboard • undenatured ethyl alcohol • concentrates and textured protein substances • oil cake and other solid residues from the extraction of soya-bean oil • soya beans other than seed • ground nuts • macadamia	• soya been seed • other edible nuts • tobacco, not stemmed or stripped • maize (corn) seed • cotton, not carded or combed • bran, sharps and other residues of wheat • natural rubber in primary forms or in plates, sheets or strip
Declining world demand	• women's or girls' blouses, shirts and shirt-blouses, not knitted or crocheted • fermented black tea in immediate packings exceeding 3 kg • tobacco, stemmed or stripped • tobacco refuse • chemically pure sucrose, in solid form • cane sugar • dried pigeon peas (cajanus cajan)	• dried peas (pisum sativum)

Source: Author's compilation using WITS data.

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) databases, inward FDI flows peaked in 2018, when they increased 10-fold to $959.4 million (Figure 3). During the same year, a $688 million greenfield construction project by Anhui Foreign Economic Construction (China) was announced (UNCTAD, 2019).

FDI inflows dropped in 2019 and further declined in 2020 amid the Covid-19 disruptions. Inflows increased modestly in 2021, and there was a notable $78 million FDI inflow towards the construction of 38 secondary school buildings, although overall inflow during the year remained lower than pre-pandemic levels (UNCTAD, 2019). In 2021, FDI stock reached $1.6 billion, equivalent to 12.7% of GDP.[5]

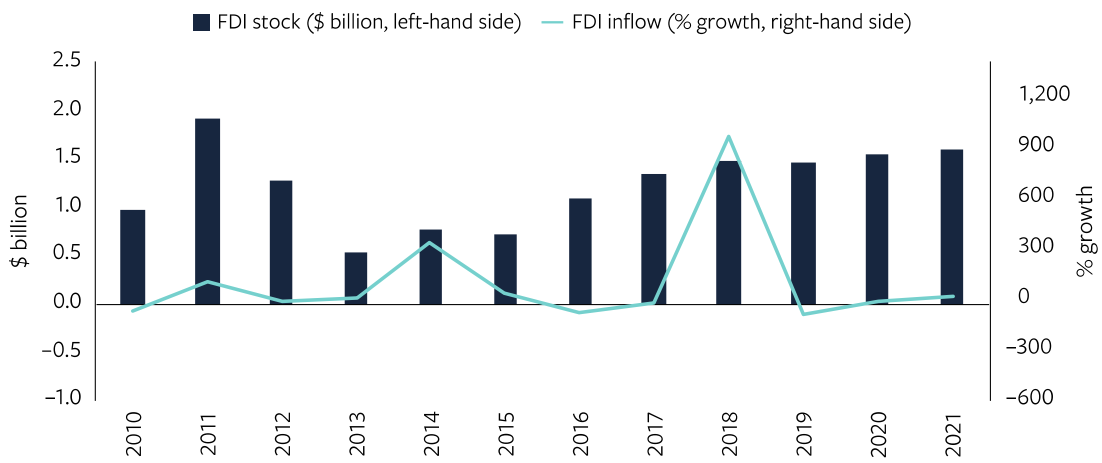
Malawi has a generally open investment regime. There are no restrictions on foreign ownership, size of investment, source of funds, sector or final destination for products (USDoS, 2022). The government extends incentives to foreign investors (MITC, ndb) and promotes the following priority sectors (MITC, ndc):

- mining (gold, uranium, platinum, nickel and copper, dimension stone, phospates, mineral sands, graphite, coa)

[5] Author's computations based on UNCTAD data.

- tourism (eco- and community-based tourism, hotels and lodges, utility infrastructure, water and lake sports, casinos and entertainment)
- agriculture (soya bean products, fruits and vegetables, peas, tea, sugar, cotton, livestock, cassava, mushroom, fisheries, which covers investment in commercial production of and storage and infrastructure facilities for these)
- manufacturing (textiles, garments and light manufacturing of electronic parts)
- forestry (processed forest products and developing new forest)
- energy (hydro, solar, wind, thermal, fuel storage, oil pipelines, biomass, biogas).

Figure 3 Inward FDI stock and flow in Malawi



Source: Author's computations based on UNCTAD data.

2.3 Business environment

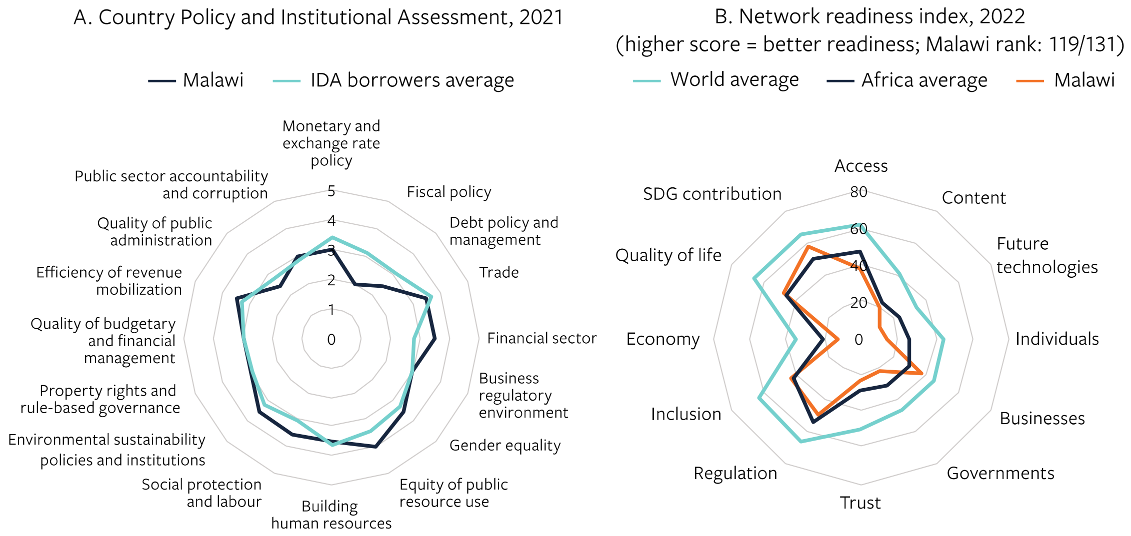
The government is promoting the business and investment environment through political stability, a market-oriented and liberalised economy, competitive labour markets, an investor-friendly climate, improving infrastructure and untapped investment opportunities, as well as streamlined investment establishment procedures through its one-stop shop. Malawi also has preferential access to several markets. Within Africa, it is a member of SADC and the Common Market for Eastern and Southern Africa (COMESA). As a least developed country (LDC), it has access to the EU's Everything But Arms (EBA) Initiative, the US African Growth and Opportunity Act (AGOA), China's General Tariff Preferential Treatment, the India Preferential Trade Arrangement Benefiting LDCs and the Japan Preferential Trade Arrangement Benefiting LDCs (MITC, ndc).

Despite this, persistent challenges in Malawi's business environment affect its global competitiveness and its ability to attract meaningful investment. A World Bank (2021) report highlights specific constraints that limit Malawi's private sector competitiveness and economic diversification:

- poor economic policies and management (e.g. frequent expenditure overruns, high risk of debt distress), contributing to overall macroeconomic instability risks, affecting businesses; for instance, foreign exchange shortages and high inflation are increasing input costs and straining enterprises (Figure 4 shows how Malawi is lagging behind in terms of fiscal and debt management compared with other low-income countries)

- high levels of state intervention that deter private sector activity: there are 67 state-owned enterprises (SOEs) across several sectors, and these lack transparency and accountability on their finances and operations
- a high level of informality (60% of businesses are microenterprises), with only a few large companies capturing most of the economic opportunities
- weak integration of mid-sized firms in regional value chains
- A shallow financial sector, and low rates of financial inclusion: it is estimated that 90% of banking loans are channelled to a handful of large corporates; as of 2018, domestic credit to the private sector was equivalent to 10% of GDP, compared with 28.4% in sub-Saharan Africa
- deficits in in electricity, water and telecommunications infrastructure: only 14.9% of the population had access to electricity in 2020 (World Bank, 2022c); there are frequent outages and the shortfall in electricity supply has been a major deterrent to growth as businesses are forced to pay higher charges to maintain stable supply (WTO, 2016; Conrema, 2018)
- lagging digital innovation, skills and entrepreneurship, especially for women and youth (also see Figure 4)
- persistent high poverty rates, with high fertility rates that put pressure on dependency rates (also see Table 1).

Figure 4 Policies, institutions and digital readiness (higher score = better performance)



Notes and sources: Figure 4A data based on World Bank (2022c). IDA borrowers refer to low-income countries eligible for financing of the International Development Association. Figure 4B data based on NRI data on networkreadiness.org by Portulans Institute (2022). Aggregate scores (world, Africa, IDA borrowers) are based on simple averages.

Recent government initiatives are designed to address some of the above challenges. In 2018, Malawi completed a Millennium Challenge Corporation Compact focused on investment in the power sector (ITA, 2022). In 2020, a Cabinet Committee on Public Private Partnership was established to focus particularly on boosting private sector growth (USDoS, 2022). During the same year, the government also enacted the MSMEs (Micro, Small and Medium Enterprises) Participation Order, which requires ministries, departments and agencies to allocate procurements below certain thresholds to local MSMEs (ITA, 2022).

The Malawi 2063 plan was launched in 2020, and lays the vision for Malawi's job creation, strengthening of human capital, increasing economic growth, accountability and transformation, and ultimately reaching lower-middle-income status by 2030 by focusing on three pillars: commercial agriculture, urbanisation and industrialisation (World Bank, 2021). The government has indicated that it will step up measures to enhance oversight of SOEs and enacted the Public Finance Management Act in March 2022 to address governance weaknesses and reduce corruption vulnerabilities.

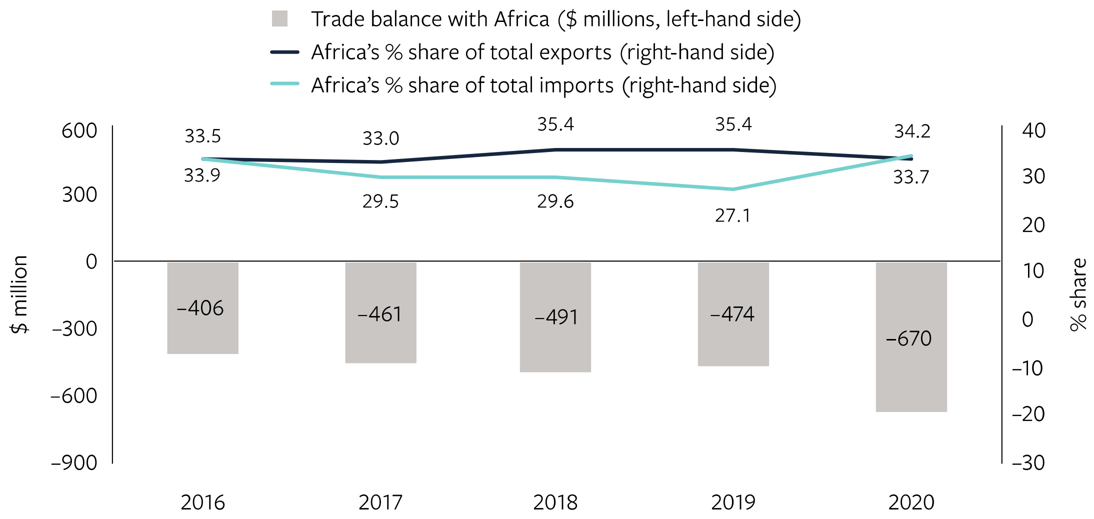
To address urgent foreign exchange and debt servicing needs, support critical imports and ease growing food insecurity, the government accessed in November 2022 an $88.3 million financing under the new Food Shock Window of the IMF Rapid Credit Facility (Engel et al., 2022; IMF, 2022b). To restore overall macroeconomic stability, the government has developed a debt strategy and has initiated negotiations with its creditor – in which creditor assurances that can be secured will help unlock higher IMF financing (IMF, 2022b).

3 Intra-African trade performance and the AfCFTA

3.1 Background: Malawi's goods trade with Africa

Malawi is a net importer of goods from other African countries (Figure 5). The deficit widened during the pandemic in 2020: demand for Malawian exports from the continent declined by 18.7% to $263 million, while imports rose by 16.9% to $932 million, resulting in the widest trade deficit (of $670 million) of the past five years (Figure 5).

Figure 5 Malawi's intra-African trade in goods, 2016–2020



Note: For consistency, 'intra-African' in this figure refers to Malawi's trading with 27 African countries with complete goods exports and imports data from 2016 to 2020. It might be noted that these countries represent an annual share of 98% to nearly 100% of Malawi's intra-African exports and imports.
Source: Authors' computations based on data largely gathered from WITS, complemented by information from the ITC and Observatory of Economic Complexity databases.

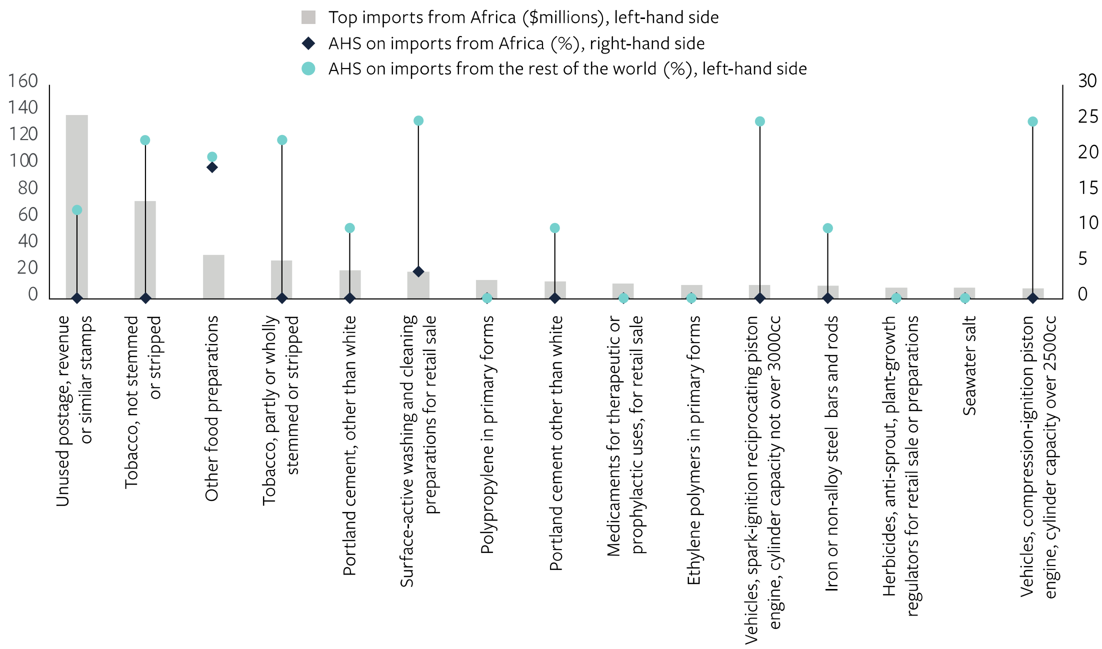
On average between 2016 and 2020, around a third of Malawi's exports were destined for African countries (34%), and a similar share of Malawi's goods imports (31%) originated from the continent. During the same period, the largest export destinations, taking in 70% of intra-African exports, were South Africa (22.3%), Zambia (14.1%), Kenya (11.8%), Tanzania (11.7%) and Zimbabwe (10.9%). Meanwhile, Malawi's intra-African imports are dominated by goods from South Africa (58.9%) and Zambia (15.5%).

By product, more than half of goods exports to the continent between 2016 and 2021 comprised stemmed and stripped tobacco (17.2%), soya bean cake oil (9.4%), cane sugar (9.3%), fermented black tea in packings exceeding 3 kg (8.4%) and ground nuts. It may be noted that, during the same period, 67% of all stemmed and stripped tobacco exports to Africa went to Egypt alone. Meanwhile, Malawi imports a diversified set of goods from the continent, but items with the highest shares include unused postage[6] (6.6%), tobacco (not stemmed or stripped) (4.3%), Portland cement (2.7%) and corn (2.7%).

The trade-weighted most-favoured nation (MFN) tariff rates imposed by Malawi on its imports from African countries ranged from 25% for Cameroon and Guinea to virtually zero for Benin, The Gambia, Madagascar and Mauritania as of 2021.[7] Malawi also extends preferential tariffs to 18 countries that are also members of the different regional economic communities (RECs) to which Malawi is a signatory. These include COMESA and SADC. Malawi is also party to a free trade agreement (FTA) with Mozambique and South Africa and a customs agreement with Botswana (WTO, 2016). As a result, preferences under regional and bilateral agreements overlap, while the former are more relevant in determining rules of origin (ibid.).

AHS is defined by the World Integrated Trade Solution (WITS) database as the lowest existing preferential tariff rates or applied MFN tariffs. Figure 6 presents the top 15 imports by Malawi from African countries, accounting for 44.7% of Malawi's imports from the continent in 2020. The figure also shows that the AHS imposed by Malawi on imports from Africa is lower than the AHS imposed on imports from the rest of the world by, at most, 25% (on vehicles).

Figure 6 Effectively applied tariff rates (AHS) on Malawi's top imported products from the Africa and the rest of the world, 2021 (%)



Notes: Top intra-African airports are as of 2020 (latest available data), and AHS is based on 2021 tariff year, weighted by trade data in 2020.
Source: WITS database.

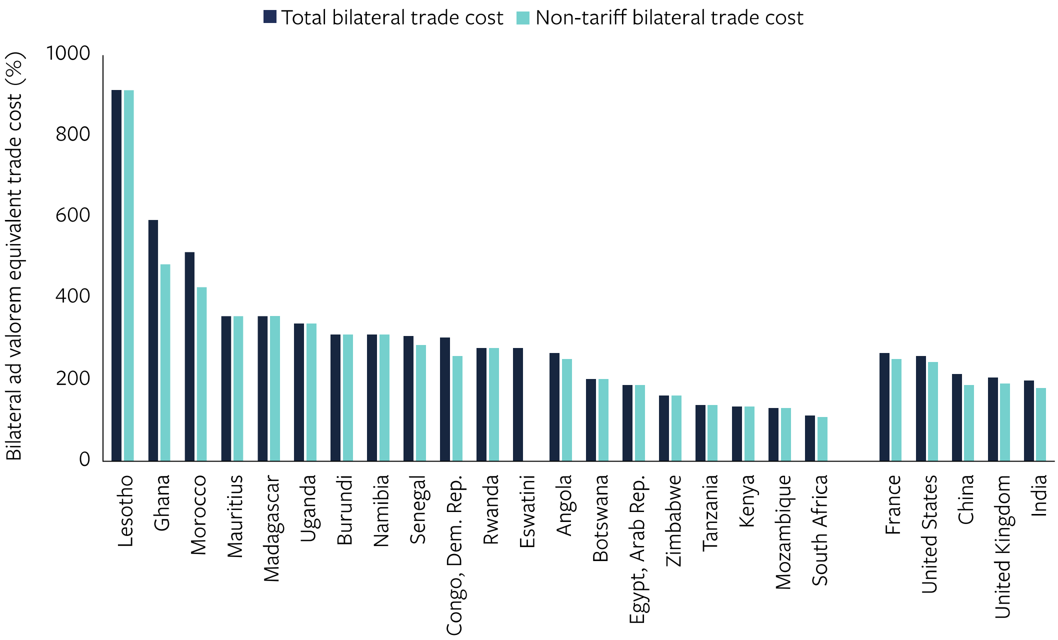
[6] More specifically, this product, with code 490700, refers to unused postage, revenue or similar stamps of current or new issue in the country in which they have, or will have, a recognised face value; stamp-impressed paper; cheque forms; banknotes, stock, share or bond certificates and the like of similar title (see full descriptions of the products under the 6-digit category here: www.foreign-trade.com/reference/hscode.htm).
[7] Based on WITS database. MFN rates refer to tariff year 2021, weighted by trade in 2020.

Non-tariff measures (NTMs) include technical measures, such as sanitary and phytosanitary standards, technical barriers to trade and pre-shipment inspection, as well as traditional instruments of trade policy, such as price and quality controls and export restrictions, affecting trade in goods on both the export and the import sides. Figure 7 shows ad valorem equivalent[8] 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.[9]

On aggregate, trading costs are lowest between Malawi and (bilaterally) South Africa, Mozambique and Kenya. It may be noted that, besides common membership within SADC, Malawi has bilateral agreements with South Africa (Economic Memorandum of Understanding) and Mozambique (Joint Permanent Commission of Cooperation). Meanwhile, Kenya and Malawi are both COMESA member states, and have several cooperation agreements on fisheries and aquaculture, among others) (Afrexim Bank, 2021; BEBA, 2021).

Despite common membership under SADC, bilateral trading costs between Malawi and Lesotho are the highest, indicating significance of non-tariff costs that could not be fully covered by preferential tariffs under regional FTAs. Figure 7 indicates that it is more than nine times cheaper for Malawi to conduct domestic trade (within its national borders) than with Lesotho.[10] Malawi's landlocked position on the continent means it is reliant on transit corridors and ports in neighbouring countries, which contributes to additional transport time, frequent delays and higher costs of trading (WTO, 2016). In effect, bilateral trading costs are also lower between Malawi and partners outside the continent than with most African countries.

Figure 7 Bilateral ad valorem equivalent trade cost between Malawi and respective partners (%)



Source: UNESCAP database.

[8] Or as a proportion (percentage) of the estimated value of the goods.
[9] 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 owing to prohibitively high trade costs. This measure, developed by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the World Bank in 2017, includes all costs involved in trading goods internationally with another partner (i.e. bilaterally) relative to those involved in trading goods domestically.
[10] See Arvis et al. (2012) for a full discussion of the methodology.

3.2 Status of Malawi's AfCFTA implementation

Malawi submitted its instrument of ratification[11] to the African Union (AU) Commission on 15 January 2021, becoming the 35th member state to ratify the African Continental Free Trade Area (AfCFTA) agreement (UNECA, 2021a). Malawi has also signed other plurilateral agreements to complement the AfCFTA, including the Protocol on Free Movement of Persons and the Single African Air Transport Market (Opali, 2021). As of February 2023, 54 out of the 55 African countries (except Eritrea) had signed the AfCFTA and 46 countries had deposited their instruments of ratification to the AU Commission (Tralac, 2023).

Countries ratifying the agreement can trade with each other based on their tariff concessions and rules of origin. As of January 2022, 87.7% of tariff lines had been agreed, with tariff lines pending in textiles, automotives, sugar and tobacco (AU, 2022a). Negotiations are ongoing, in which 46 countries had submitted their provisional schedules of tariff concessions as of February 2023 (AU, 2023)

With the adoption of the AfCFTA, tariffs on good originating from other African countries will also 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 10 years for LDCs (including Malawi), five years for non-LDCs and 15 years for six selected countries[12] (Hartzenberg, 2023). 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 total trade value limit of not more than 10% (ibid.).

There have been preparatory and awareness-raising activities conducted at the national, regional and continental level. At the continental level, the Ninth Meeting of the AfCFTA Ministers of Councils, in July 2022, announced the AfCFTA Secretariat Guided Trade Initiative (GTI) (AU, 2022b). Eight countries[13] have been participating in the GTI but Malawi is not among them (yet). The GTI aims to (i) allow commercially meaningful trading under the AfCFTA; (ii) test the operational, institutional, legal and trade policy environment under the AfCFTA; and (iii) send an important positive message to the African economic operators (ibid.). The products earmarked to trade under the GTI include ceramic tiles; batteries, tea, coffee, processed meat products, corn starch, sugar, pasta, glucose syrup, dried fruits and sisal fibre, among others, aligned with the AfCFTA focus on value chain development (AfCFTA Secretariat, 2022). While the GTI needs to cover more products and countries, this is nonetheless a positive step in generating longstanding business relations, especially among countries in the continent with weaker trade links (Mendez-Parra, 2022).

At the level of RECs, of which Malawi is a member, the Economic Community for West African States (ECOWAS) Commission submitted its tariff offer on 5 December 2020 (AU, 2021). ECOWAS conducted a technical review with partner organisations of the draft Regional Implementation Strategy in November 2021, which ECOWAS presented to state and non-state actors in March 2022 (ECOWAS, 2021a; 2022a).[14] ECOWAS technical working groups covering goods, services, dispute settlement, investment, intellectual property rights (IPR), competition policy

[11] The trade ministry, along with the United Nations Economic Commission for Africa (UNECA) and the African Union Commission (AUC), organised pre-ratification workshops to engage with relevant stakeholders on AfCFTA issues and secure consent for Malawi to ratify the agreement (UNECA, 2019). Implementation of the AfCFTA will start after its budget, which incorporates the AfCFTA ratification instrument, is passed into law (UNECA, 2021c).
[12] Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe.
[13] Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia.
[14] This review was undertaken at a meeting held by the ECOWAS Commission, in collaboration with officials from UNECA, the West African Economic and Monetary Union Commission, the United Nations Development Programme and GIZ.

and digital trade, as well as women and youth in trade in the context of the AfCFTA, have been established, and a coordination meeting was held in January 2022 (ECOWAS, 2022b). The ECOWAS Commission has supported national AfCFTA initiatives through a series of sensitisation and capacity-building workshops (ECOWAS, 2020a; 2020b; 2021b).

Meanwhile, SADC has been engaging with the AfCFTA Secretariat to finalise the plan for collaboration between the AfCFTA Secretariat and RECs on AfCFTA implementation, which focuses on main strategic issues covering operationalisation of AfCFTA institutions; implementation of AfCFTA legal provisions under phase 1 and 2 negotiations; and delivering technical assistance, capacity-building initiatives and resource mobilisation for AfCFTA implementation (SADC, 2022). The East African Community (EAC)–COMESA-SADC Tripartite FTA is envisioned to complement the AfCFTA but effectivity is pending since only 11 tripartite members have ratified the agreement, which is below the threshold of 14 ratifications for it to enter into force (ibid.).

A World Bank (2020b) simulation suggests that Malawi can experience a 1.8% increase in real income,[15] a 12.5% rise in total exports, a 13.4% rise in total imports and a 34% increase in intra-AfCFTA exports as compared with 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% in 2035 compared with the baseline. A new World Bank study estimates that deeper integration beyond trade, which accounts for the impact of the AfCFTA on FDI, could raise Malawi’s real income by 2.1% to 3.1% compared with the baseline scenario (Echandi et al., 2022). However, this gain is the lowest compared with those for another 24 African countries (e.g. the highest gain, in Côte d’Ivoire, is up to 15.9%) (ibid.).

Malawi recognises the AfCFTA as an opportunity to achieve the country’s goal of expanding and diversifying its export products and services at the regional and global level under its National Export Strategy II 2021–2026.[16] The Malawian government has prepared the AfCFTA National Strategy, which has been validated through a series of workshops with relevant stakeholders to increase ownership and ensure implementation (MW Nation, 2021b). The strategy identifies the following exports that could benefit from the 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). Further efforts to develop the services sector – especially business, telecom, financial, tourism and transport – through targeted policies could help turn around the trade deficit in trade in services under the AfCFTA (ibid.).

In addition, Malawi, in collaboration with international partners such as the United Nations Economic Commission for Africa (UNECA), the EU and GIZ, has conducted several workshops with government officials and private sector players, as well as civil society organisations, to support government initiatives on Malawi’s trade and investment promotion and industrialisation efforts; to strengthen institutions to facilitate trade in goods and services under the AfCFTA; and in preparation for the AfCFTA phase 2 negotiations (see UNECA, 2021b; GIZ, 2022).

Malawi has approved new tariffs under the AfCFTA from 1 July 2021, under three categories: non-sensitive products that will experience a 50% drop in tariff rates, a

[15] Under a scenario whereby the AfCFTA is implemented with complete elimination of tariffs, non-tariff barriers and trade facilitation measures.
[16] See The Commonwealth (2021) and Government of Malawi (2021).

sensitive category that will benefit from reduced duty after some time and a third category where duties will not be reduced or removed[17] (Mkweu, 2021a). Its tariff book has 7,800 products, of which 90% are non-sensitive and include manufacturing products, given Malawi's infant manufacturing sector, which faces little threat from imports (ibid.). Nevertheless, private sector players under the Malawi Confederation of Chambers of Commerce and Industry) have expressed their readiness to tackle the additional competition from African partners (Mkweu, 2021b).

However, recent reports (as of February 2023) suggest that the Malawian government has received comments on the tariff offers that it has submitted to the AfCFTA Secretariat, which necessitates further review of the said offers by the Malawi Revenue Authority (Mangazi, 2023). The review is targeted to finish within two months to April 2023, after which Malawi plans to apply to the GTI (ibid.). Finalising the tariff offer is critical for Malawi to start its commercially meaningful trade under the AfCFTA, which has been absent since the Agreement took effect in January 2023.

In November 2022, the AfCFTA Council of Ministers in charge of Trade adopted the AfCFTA protocols on investment, competition and IPR (GMI, 2022). Based on ODI interviews, it is understood that the AU Heads of State noted these protocols in November 2022, and, pending a legal review, they are expected to be formally adopted in February 2023. Following this, the member states will need to ratify the protocols.

To date, Malawi has in place the Investment and Export Promotion Act 2012, and generally offers an open investment regime. It has the Trademarks Act of 2018 and the National Intellectual Property Policy in 2019 (USDoS, 2022). However, the US Department of State (USDoS) has assessed that enforcement of IPR protection lacks capacity and is weak and unsystematic (ibid.). In the area of competition, Malawi has its Competition and Fair Trading Act of 1998, and a dedicated agency to regulate, monitor, control and prevent acts or behaviours that would adversely affect competition and fair trading in Malawi.[18] Such legislation may provide a benchmark as Malawi initiates its engagement in the phase 2 negotiations of the AfCFTA.

To start gaining from the AfCFTA, Malawi may need to put in simultaneous efforts with regard to undertaking a comprehensive gap analysis between domestic laws and international trade commitments; expediting the review and finalisation of its tariff offers to guide and activate firms' trading under the AfCFTA; in collaboration with international partners, addressing structural challenges (e.g. capacity-building needs, infrastructure deficits) that impede AfCFTA implementation; and finalising and implementing its AfCFTA strategy with clear timelines and alignment with national development goals (e.g. considering Malawi's grace period in view of its LDC status).

[17] According to the Ministry of Trade, 'non-sensitive' are products that the country does not manufacture while 'sensitive' products comprise those that the country manufactures but not in huge capacity. The third category will consist of products that the country manufactures, therefore imports are not needed.
[18] See Competition and Fair Trade Commission website: https://www.cftc.mw/

4 Opportunities and challenges for Malawi’s trade and investment

Based on the analysis in the previous sections of Malawi’s macroeconomic performance, trade and investment landscape, and AfCFTA implementation, Table 4 summarises Malawi’s strengths, weaknesses, opportunities and risks for key stakeholders (e.g. policy-makers, traders/investors, international donors) to consider for Malawi to make the most out of trade, investment and the AfCFTA.

Table 4 Malawi’s strengths, weaknesses, opportunities and risks

Strengths	• preferential access to SADC and COMESA markets for exports • LDC status preferential market access with China, EU, India, Japan and US • open investment regime that offers incentives for investment in priority sectors and streamlines investment procedures through one-stop shops • government proactiveness to join the AfCFTA, exhibited by early ratification, developing an AfCFTA national strategy, submitting tariff offers (although under review as of 2023) and signing complementary agreements such as the Protocol on Free Movement of Persons and the Single African Air Transport Market
Weaknesses	• persistent high poverty and fertility rates and low levels of human capital development • dependence on rain-fed agricultural output for exports and growth • landlocked geographical position, contributing to high transport costs and Malawi’s reliance on neighbours for access to transit corridors and ports • highly informal economy • low access to electricity and other basic infrastructure (only 15% of population had access to electricity in 2020) • lack of diversified exports (tobacco comprise more than half of exports) • lack of access to technology and innovation • nascent financial sector development and low levels of financial inclusion • public sector rife with corruption and low fiscal accountability • macroeconomic instability from accelerating inflation, currency devaluation, foreign exchange shortages and high risk of debt distress
Opportunities	• diversifying exports to include semi-manufactured and semi-processed goods, including those from agro-based industries • addressing NTMs (either plurilaterally or bilaterally) could spur export growth with African partners • strategic preferential membership with several RECs, like COMESA and SADC, that can be leveraged to capture continental markets • increasing Malawi’s efficiency and/or world demand for exports, including plastic packaging products, manufactured wood products, soya bean oil, edible nuts, corn, wheat and natural rubber in plates or sheets • investment opportunities in agro-based processing industries and mining of uranium and other metals, as well as textiles and garments manufacturing

Threats (risks)	• protracted Russia–Ukraine war and its spillover effects that may affect Malawi's largely commodity-based exports • adverse weather conditions that may negatively affect agricultural production, and exacerbate food insecurity • delays in progress of negotiations with creditor on debt restructuring, blocking access to external financing that could ease balance of payments needs, which may exacerbate the deterioration of macroeconomic stability • delays in the review, finalisation and submission of Malawi's tariff offers for the AfCFTA • low participation in AfCFTA owing to high non-tariff trade costs associated with bilateral trading with other African countries (and relatively lower trade cost with partners outside the continent)

5 Conclusion

Malawi has been challenged by persistently high levels of poverty; high fertility rates that put pressure on the dependency ratio; a deficit in basic infrastructure for electricity, water and telecommunications; nascent financial sector development; and frequent fiscal policy slippages. It is also vulnerable to shocks, as its agriculture sector, which is a source of both employment and exports, is susceptible to adverse weather conditions and global commodity price volatility.

Meanwhile, the compounding challenges of recent years, from the Covid-19 pandemic to droughts and storms and the Russia–Ukraine war spillover effects, are putting a serious strain on Malawi's already fragile economic stability. In 2022, it registered double-digit inflation, sharp currency depreciation and a depletion of foreign reserves, and initiated debt restricting in view of the high risk of debt distress. The structural challenges combined with macroeconomic instability pose serious constraints to FDI and businesses. Malawi has secured $88.3 million in IMF financing, which may temporarily help ease urgent balance of payments needs. GDP growth is expected to remain below pre-pandemic levels up to 2025. Creditor assurance on debt restructuring is needed to unlock higher IMF financing, which may support Malawi's medium-term economic reforms.

Expansion of exports is one pathway through which Malawi can ease its foreign exchange shortages and help with short-term economic stabilisation, and diversifying exports may contribute to achieving an inclusive, transformative and resilient economy, which is the overarching goal in Malawi's latest export strategy (2021–2026). Malawi has been a net importer of goods and services. Total goods trade (exports+imports) was equivalent to 35.2% of GDP in 2021, of which only 8.3% was exports. Yet there is an opportunity to support exporting of products with increasing world demand and where Malawi has increasing efficiency, such as soya bean oil, edible nuts, plastic packaging and manufactured wood products. A third of Malawi's exports have been going to Africa but markets are concentrated in a few countries (i.e. 46% went to Kenya, South Africa and Zimbabwe as of 2020) and products (i.e. 45% comprised tobacco, cane sugar and ground nuts as of 2020).

Malawi has exhibited commitment to joining the AfCFTA through its ratification of the Agreement, initial submission of tariff offers, preparation of a national AfCFTA strategy and signing of complementary agreements related to aviation and the free movement of people. However, it has recently backtracked to review its initially submitted tariff offers, and, without a definite timeline commitment, may risk further delays to participation in the AfCFTA. To date, Malawi has not seen meaningful trade under the AfCFTA.

To start harnessing gains from the AfCFTA, Malawi may need to expedite simultaneous efforts on addressing structural (e.g. trade-related capacity and infrastructure needs) and legal gaps that may be impeding its participation in the Agreement, finalising its tariff offers and implementing its AfCFTA strategy.

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