

Manufacturing and Industrialization in Malawi: Trends, Opportunities, and Strategies

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Key Messages

- Invest in increased agricultural productivity to raise incomes and increase domestic demand for manufactured products.
- Develop a coordinated industrialization policy that covers key sectors of the economy including agriculture, mining, energy, labor, finance, and trade.
- Invest in physical infrastructure (feeder roads, railways, electricity, and information and communication technology) to reduce the cost of doing business.
- Cluster strategic industries (industries with high comparative advantage, potential for forward and backward linkages, and high content of domestic raw materials) into special economic zones for effective infrastructure and other services targeting.
- Establish a well-funded industrial and agricultural research and development (R&D) system.
- Maintain stable macroeconomic environment for increased private sector investments, reduced cost of borrowing, and to boost foreign direct investment inflows.
- Invest in human resource development for improved technical skillsets necessary for more specialized forms of production.
- Develop a forward-thinking strategy to tap into the expanded regional markets and engage regional value chains in subsectors where Malawi has comparative advantage.
- Develop and implement a comprehensive anti-corruption strategy that should include a demonstration of credible intent to fight corruption, increased anti-corruption campaigns, and strict enforcement of laws.

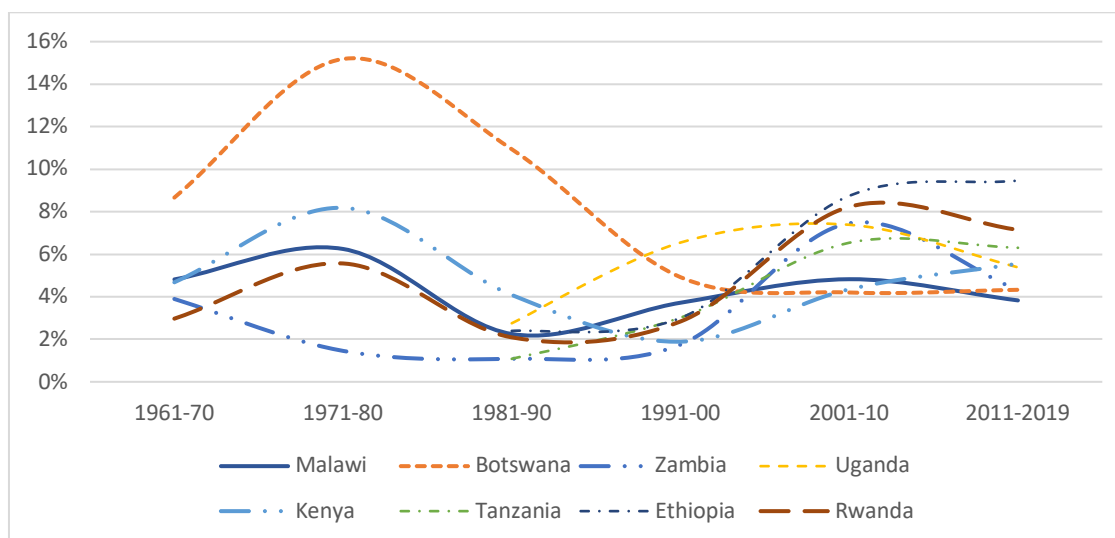
Introduction

The historical performance of the Malawian economy, just like other sub-Saharan Africa (SSA) economies, depicts both the external and domestic challenges that the country went through (Figure 1). A rapid growth phase averaging 5-6 percent in the early independence days (1961-1980) driven by agricultural growth, agricultural land availability, and a low population pressure. Then followed the period 1981-90 that saw growth rates of two percent as result exogenous shocks associated with the economic liberalization, declined agricultural production and productivity due to declining landholding sizes, and unequal distribution of land. Although the country's economy registered increased growth rates in the post-liberation periods, the country has not succeeded in bouncing back to the 1961-1980 growth rates.

The situation has been made worse by the drastic increase in HIV prevalence, recurrent exogenous shocks (e.g., droughts and floods) exposing the country to increased vulnerability, mounting population densities, shrinking land sizes in the absence of a coherent land policy, and declining soil fertility. As a result, poverty and inequality in the country remains stubbornly high. The latest poverty figures show the share of Malawians living below the international poverty line of \$1.90/day stood at 70.3 percent in 2016.¹ More than 90 percent of the poor reside in rural areas. The share of the population below the national poverty line was estimated at 52 percent in 2016.

The overarching policy objective of Malawi is finding way to revitalize economic performance in order to reduce the high poverty incidence. Even through the economy of the country like many other SSA

Figure 1: GDP Annual Growth for Selected East and South African Countries



Source: Data from the World Bank Development Indicators.

countries is dominated by agriculture, it has been argued that a robust industrial sector has the potential to generate rapid economic growth. Experiences from the fast-growing economies in South East Asian show that a vibrant industrial sector has the potential to create remunerative employment.² It is also argued that economic diversification towards industrialization reduces the macroeconomic risks associated with dependence on primary agricultural products. For these reasons, the African Union has put the promotion of industrial growth in SSA at the center of its Agenda 2063.³ Also, the launch of the African Continental Free Trade Area (AfCFTA), a single market for goods and services in Africa is aimed at unlocking and facilitating industrialization for sustainable growth and employment creation in SSA.

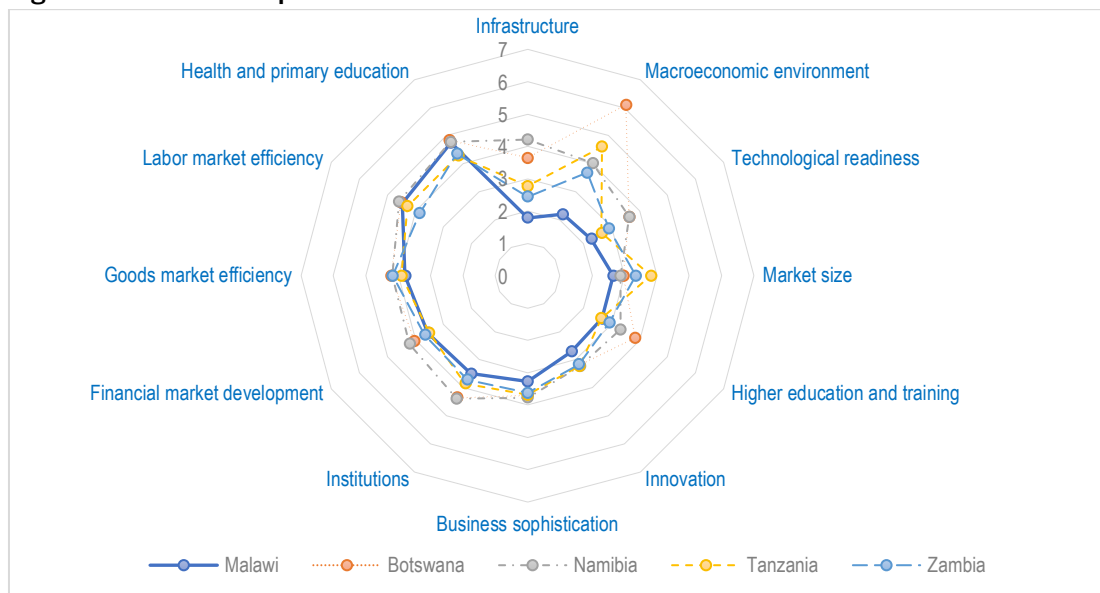
Consequently, this paper explores how to unlock the country's industrial growth. It starts by examining the causes of the false starts in the past attempts to get the country industrialized and the prospects for an agricultural-led industrialization. Further, the paper studies some selected fast-growing economies in SSA and in East Asia to draw lessons to inform the country's industrialization strategy and to flag out obstacles that need to be cleared to facilitate the process

Overview of the Industrial Sector in Malawi

Despite many policy interventions and strategies, the performance of the manufacturing/industry sector in the country has continued to disappoint. For example, industrial sector's contribution to the total Gross Domestic Product has stagnated at 15 percent.⁴ The dismal performance of the industry sector is also mirrored in the sector's share in the total employment in the country. The share of the industrial sector's employment has stagnated at about eight (8) percent.⁵

Malawi ranks low in terms of industrial sector and general economic competitiveness compared to other countries in sub-Saharan Africa. The country ranks 134 in terms of the industrial sector competitiveness out of 150 industrialized economies.⁶ Zambia and Tanzania rank 119 and 127, respectively. According to the World Economic Forum (WEF) Global Competitive Index (GCI) 2017-18, Malawi ranks 132 out of the 137 countries studied.⁷ In sub-Saharan Africa, Rwanda leads the pack ranking 52. The GCI is based on 12 indicators that determine long-term growth, measured on a 1 (worst)–7 (best) scale, and aggregated to determine a final overall score. The results for Malawi are presented in Figure 2. The country scores poorly in

Figure 2: Global Competitiveness Index 2017-18 in selected Southern Africa Countries



Source: Data from World Economic Forum, Global Competitiveness Index 2017-18

most of the indicators including infrastructure (1.79), macroeconomic environment (2.19), technological readiness (2.28), market size (2.65), higher education and training (2.66), and innovation (2.71). A survey conducted among business executives in Malawi by the WEF identifies corruption as the single most important factor hindering business in Malawi.

Lessons for Malawi's industrialization strategy

Experiences from two fast growing countries (Rwanda and Ethiopia) in SSA and four newly industrialized East Asian economies (Japan, Korea, Singapore, Hongkong and Taiwan) reveal that there is no semblance of a *one-size-fits-all* recipe for industrialization that can be replicated in Malawi. However, key lessons to inform renewed discussions aimed at invigorating industrialization in Malawi abound. Just like many other small and landlocked economies in SSA, Malawi faces several binding constraints that must be dwelt with to unlock the country's industrialization potential. Also, like other SSA countries aspiring to become industrialized, Malawi will be required to deal with difficulties associated with 'latecomer' disadvantages. Much work could be done to

tremendously increase the country's economic competitiveness and productivity. The review of these economies reveals the following:

First, the government has a very important role to play in determining the ease with which Malawi will transform. It is instructive to know that industrialization in successful economies has been the outcome of structural transformation, not the mechanism used to produce transformation. The engine of structural transformation in poor and agriculture-based countries is agricultural productivity.

Second, effective and development-focused leadership and a strong political are the most crucial ingredients to achieving economic transformation. Experiences from Rwanda and Ethiopia attest to the fact that economic transformation is a leadership-driven process. It calls for a leadership with clout to rally stakeholders to coalesce around an economic transformation agenda and to sustain the transformation momentum over election cycles.

Third, concrete industrial policy, consisting of a long-term vision and medium-term implementation plans, is essential for guiding industrialization processes in the country. For successful

implementation, industrial policy must be realistic and targets compatible with both the current and projected resources and capabilities. Industrial policy must also be flexible to be adapted to changing conditions.

Fourth, industrialization strategy must be based on the specific country's 'natural' comparative advantage. The comparative advantage obtains from the country's factors of production endowment (labor, capital, and land) and productive capabilities. Malawi being a labor-abundant country, it is sensible for the country to explore a labour-intensive and capital-saving industrialization pathway. Also, given the dominance of the agricultural sector and limited mineral reserves, it makes sense for the country should pursue agro-based industrialization strategy. Consequently, the country should carefully identify and deliberately promote agro-based industries with higher and strong interdependences (linkages) with other sectors.

Fifth, for successful industrial policy, the government should act as facilitator and enabler. Lessons from the fast growing and the newly industrialized economies show that the countries increased their productive capabilities through investing intensively in physical infrastructure, research and development, and human resource development. Since it may not be financially feasible to provide these investments uniformly across the country, it may make economic sense to target industries operating in areas with potential

comparative advantage to enhance their efficiency and productivity.

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