
AN OPPORTUNITY OR A DISADVANTAGE? THE IMPACT OF GLOBALIZATION ON ECONOMIC GROWTH IN MALAWI

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ABSTRACT

This paper investigates why Malawi's economy is not benefiting from globalization today. While most expert claim that rich countries in the West manipulate global trade to prevent poor economies from gaining, this argument seems weak because when Malawi's economy was performing well in the 1960s and 1970s, it was because of global trade. Also, economies of several countries in Asia have improved because of global trade in recent years. On the other hand, liberal free trade has posed threats of increasing unemployment rates in rich countries as manufacturing jobs are being outsourced to countries where labor is cheap in order to reduce production costs. It seems unfair to blame rich countries because no one is in charge of globalization and anyone can win or lose in global trade. In this paper, I argue that reasons why Malawi's economy is not benefiting from globalization are internal rather than external.

Keywords: globalization, international trade, economic growth, malawi's economy

1.0 INTRODUCTION

The increase of Malawi's poverty levels in the wake of expanding global trade is worth noting considering that several countries have experienced economic growth because of globalization. While most experts claim that rich countries manipulate globalization in their favor, this explanation is liable to criticism because no one is in charge of globalization. Reasons why Malawi has not benefited from globalization seem to be beyond what most experts claim. In this paper, I seek to assess the impact of globalization on economic growth in Malawi. Since agriculture is the backbone of Malawi's economy, I will analyze trends of GDP growth rate in relation to agricultural performance in the period 2000-2011 in order to explain why Malawi's economy has not grown. While the period 2000-2015 could have been more ideal for this work, I have chosen the period 2000-2011 because there is statistical evidence of poor economic growth due to poor agricultural performance in this period. Also, focusing on 2000-2011 will help to

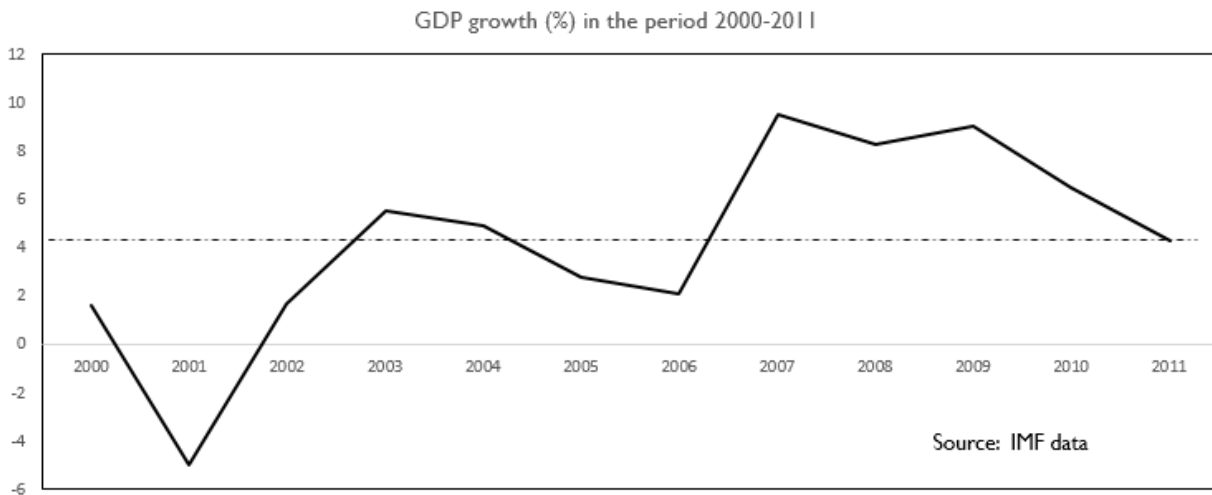
ensure consistency because there is missing agriculture data in 2014 and 2015. I will contend that Malawi's economy has not benefited from globalization because of internal factors as opposed to external influence.

2.0 BACKGROUND

Malawi is ranked 174th in terms of Human Development Index across the globe with over 61.6 percent of her population living below \$1.25 per day (World Bank, 2013). It is located in Southern Africa bordered by Zambia to the North West, Tanzania to the North East, and surrounded by Mozambique from the South West to the South East. The total population is 17.7 million (NSO, 2016), and 85 percent live in rural areas (The World Bank). Literacy levels are at 67.2 percent (NSO 2013). Rain-fed agriculture still remains the backbone of Malawi's economy since attaining independence from British colonial rule in 1964. Major crops include maize, tobacco, tea, sugarcane, and coffee (Chirwa et al. 2008:15). These agricultural commodities find their way to USA, South Africa, United Kingdom and many other rich countries through global trade (Banda 2005:46). Malawi's economy was liberalized and integrated into the global market under mechanisms such as the World Bank Structural Adjustment Programs, bilateral trade agreements, regional agreements, and multilateral agreements under the World Trade Organization in around 1994 (Bhalla et al. 2000:2; Chirwa 2002:5).

However, Malawi's economy has been unsatisfactory and erratic as revealed in the trends of GDP growth rate in the period 2000-2011 shown in figure 1 below. GDP growth rate fell from 1.6 percent in 2000 to -5 in 2001. Although GDP growth rate seemed promising between 2007 and 2010, the dotted line in figure 1 shows that the average was still below 6 percent which was consistent circa 1970s (Chirwa et al. 2008:1). This poor economic performance has heavily impacted on wellbeing of Malawians. The government can hardly afford medicines in the hospitals or pay salaries for public officials in time (Mazengera 2012:3; USI 2015). This has compelled Malawi government to increase borrowing of funds in order to superimpose budgetary deficits. Between 2012 and 2014, Malawi borrowed the sum of US\$0.71 billion from various multilateral sources such as International Monetary Fund (IMF) and International Fund for Agricultural Development (IFAD), and bilateral sources that include India, France and Belgium, thereby increasing her external debt from US\$1.15 billion in 2012 to US\$1.86 billion in 2014 (IMF 2015:3). An interesting question for development experts is whether globalization is an opportunity or a disadvantage for Malawi.

Figure 1: Malawi GDP growth rate (2000-2011)



3.0 VIEWS ABOUT GLOBALIZATION

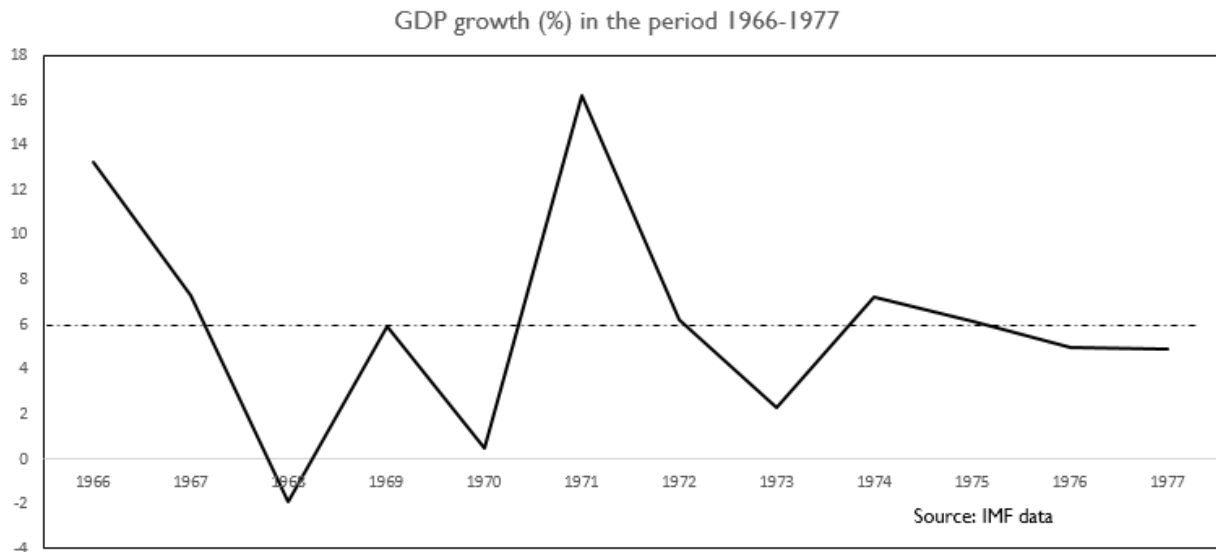
3.1 Positive views

Most experts agree that Globalization provides unprecedented economic growth opportunities for poor countries like Malawi. Jeffrey Sachs suggests that sustained economic growth requires that the poor countries increase exports to rich countries (2005:281). Export growth enables governments of the poor to earn foreign exchange for capital imports such as technology to boost local economic production. Thus, poor countries cannot develop their economies sustainably without integrating into the global market. Similarly, William Easterly shares Sachs' view about the need for global trade as an opportunity for economic growth (2006:77). He agrees that free trade is recommended for economies of the poor countries to grow. Sachs and Easterly's common views about the need for global trade as a roadmap to economic prosperity seem to resonate with Malawi's economic performance in the period 1966-1977.

The period 1966-1977 was generally characterized by positive and stable economic growth at an average of 6 percent as shown by the dotted line in figure 2 below. GDP annual growth rate was at 6 percent and Malawi's economy was self-sustained. It is important to note that during this period Malawi was already in global trade. The British had initiated trade with rich countries during colonial rule (Bhalla et al. 2000:2). Integration of Malawi's economy into global trade is therefore, not new. It seems that globalization is an opportunity when we consider Malawi's promising economic performance during the first decade of independence. However, Malawi's poor economic performance in the period 2000-2011 casts doubt on globalization as an

opportunity to economic prosperity. Is globalization responsible for Malawi's poor economic growth today?

Figure 2: Malawi GDP growth rate (1966-1977)



3.2 Negative views

Although most experts agree that globalization offers hope for poor countries to grow economically, some claim that most African economies have not benefitted from globalization because of external influence from the rich countries. Paul Collier claims that poor countries have not benefitted from global trade because the global market is hostile to them. He argues that in the 1980s, a poor country could benefit from global trade and develop economically, but today, rich countries embrace economic policies that are not favorable to the poor countries (2007:6). Rich countries spend a lot of money on their local farmers to subsidize crop production, thereby lowering prices of local agricultural products which in turn, closes off export growth opportunities for poor countries who rely on agriculture to earn foreign exchange (Collier 2007:159-60). Also, Collier complains against tariff escalation in rich countries as impeding export growth for the poor. Noting that tariffs on processed materials are higher than on the unprocessed materials which the poor export to rich countries, Collier complains that the poor cannot benefit from global trade because such tariff policies make it harder for them to diversify their exports by processing their raw materials before exporting them (2007:160). For Collier, the global market is not friendly to the poor countries today than it was in the 1980s. It is like the poor countries missed the boat to economic prosperity, finding themselves in a limbo-like world

in which economic growth is constrained by external factors (Collier 2007:7). Thus, according to Collier, economies that are dependent on agriculture like Malawi cannot gain from global trade unless rich countries reduce tariffs on processed exports and stop subsidizing local agricultural production.

Several studies seem to agree with Collier on external factors as an explanation to why Malawi has not gained from global trade. Otanez et al. suggest that Malawi's failure to benefit from global trade is linked to external influence from developed countries and multinational corporations. In their study which aimed at assessing the influence of tobacco leaf buying companies in Malawi, Otanez et al. discover that while rich countries exert pressure on Malawi to reduce trade barriers and provide market access to goods from the West, rich countries themselves refuse to reduce subsidies paid to their domestic tobacco farmers (2007:262). Like Collier, Otanez et al. claim that these subsidies depress prices paid to Malawian tobacco farmers, thereby depriving Malawi of reasonable forex gains. Otanez et al. claim further that multinational corporations such as Alliance One International and Universal which are major buyers of raw tobacco in Malawi play oligopsony which denies the country meaningful profits (2007:262). When the Malawi government insists reasonable prices so that local tobacco growers can benefit, the buyers turn to smuggled tobacco from Mozambique and Zambia, leaving Malawi with no choice but accept prices determined by the buyers (Otanez et al. 2007:262).

Tonia Kandiero agrees that external influence contributes to poor economic growth of the poorest countries. In her case study which focuses on Malawi in the multilateral trading system, Kandiero welcomes Malawi's complaints against unfavorable trade policies in rich countries as valid concerns (2005:330-334). She recommends that rich countries should reduce agricultural production subsidies for their local farmers and tariffs on goods exported by poor countries like Malawi in order to allow the poor to participate meaningfully and benefit from global trade. Thus, according to part of Kandiero's findings, Malawians believe that they cannot gain from global trade without some goodwill from the rich countries to create opportunities for them.

But are the rich countries and multinational corporations really to blame for Malawi's failure to gain economically from global trade? Otanez et al. and Kandiero's views against rich countries and international companies as responsible for Malawi's trade frustrations seem unfair for several reasons. Following the World Health Organization's (WHO) anti-smoking campaign, demand for tobacco has declined in recent years. For example, the prevalence of adult smokers in USA, which is one of the major destinations for Malawi's raw tobacco, fell from 22.8 in 2001 to 16.8 in 2014 (CDC 2016). It is surprising that Malawi continues to grow tobacco for export when tobacco is no longer marketable as it was in 1960s and 70s. Given that in basic economics suppliers cannot gain if demand is low, the decline of demand for tobacco across the globe

should have been a wakeup call for Malawi to stop growing tobacco. Malawi should, therefore, not be surprised when tobacco buyers play oligopsony.

Also, the argument that rich countries close trade opportunities for the poor through local subsidies on production of the same crops on which the poor depend for exports, seems weak because it does not recognize the rich countries' responsibility for the welfare of their own citizens. Every government is under obligation to ensure welfare of its own citizens, and as sovereign states, rich countries have the right to close their ears to outside complaints from the poor countries. If some rich countries make deliberate efforts to create trade opportunities for poor countries, it is simply out of empathy. It is therefore, not surprising that rich countries continue to subsidize local agricultural production because economies of the poor countries like Malawi are of little interest to them and no one can hold them accountable. Much as Collier's views help to understand why Malawi's economy is not gaining from global trade, attributing the problem to external influence is invalid because it assumes that rich countries control and manage globalization.

3.3 Myers' view of Globalization

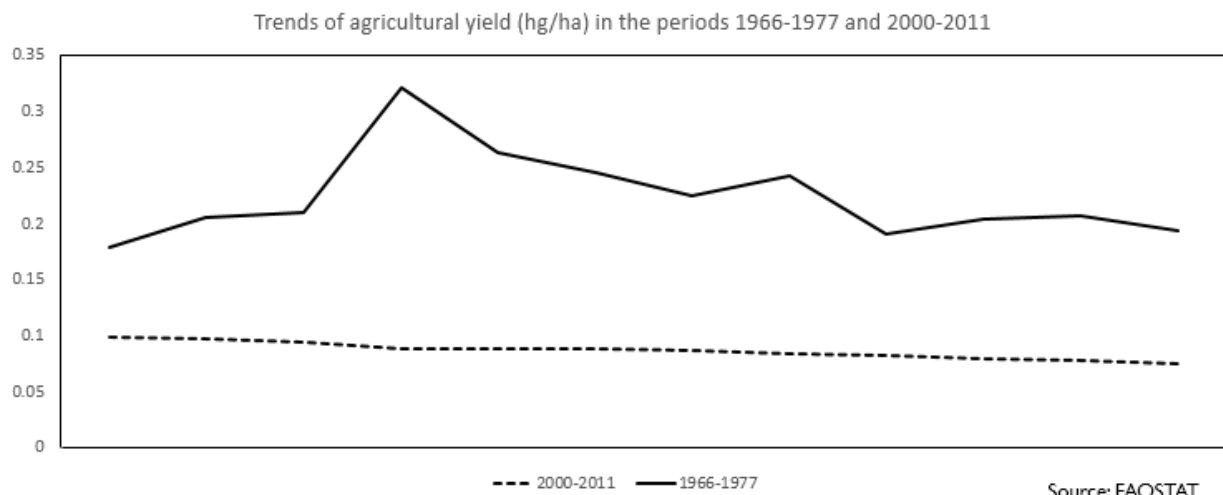
Bryant L. Myers argues that no one is in control of globalization because it is kaleidoscopic and unmanageable. In his fourth coming work on engaging globalization whose publication is underway, Myers challenges the notion that rich countries in the West can manage globalization to recreate the world for the better, arguing that no one can get their hands around globalization because of its complexity (2016:65). Noting that in a globalized world, actions of billions of consumers, investors, and corporations take place every day without coordination, Myers argues that globalization is not a result of top down direction, contrasting the Western notion that a certain group of people with great ideas, money and technology can and will manage globalization (2016:65). For Myers, even rich countries can lose in liberal free trade. He observes that manufacturing jobs in rich countries are being outsourced to countries where labor is cheap, thereby creating employment gaps in the Western countries (2016:73-74). On the other hand, consumers opt for affordable and efficient products regardless of where they are manufactured. This implies that whoever beats other sellers' prices wins. Thus, according to Myers, anyone can lose or win in liberal free trade because no one is in charge of globalization.

Myers' view of globalization sounds more convincing especially considering that some Asian economies like China and Bangladesh are able to gain from global trade through exports across the globe. In order to avoid expensive labor, some multi-corporations have relocated from Western countries and invested in China, Bangladesh, India and other countries where production cost is cheaper as evident by inflows of Foreign Direct Investment (The World

Bank). As a result, they are able to produce more at a low cost, and their market prices are relatively lower than those who produce where labor is expensive. That is why countries like China, Bangladesh, and India are gaining a lot from globalization. They are more efficient and offer competitive prices for their products. This attests to the fact that no one is in charge of globalization, and to survive in global trade requires competitiveness. Thus, the agricultural subsidies which Collier is worried about cannot prevent economies of the poor countries from gaining through global trade if their prices can beat the rich countries' local prices. It might be said that whoever offers the best flourishes in global trade. In the same way, Malawi could benefit from global trade if her products were competitive.

However, it appears that Malawi wants to gain more, and yet it is offering little on the global market as evident in declining agricultural production per capita in the period 2000-2011 compared to the first decade of independence shown in figure 3 below.

Figure 3: Malawi trends of agricultural performance between 1966-1977 and 2000-2011

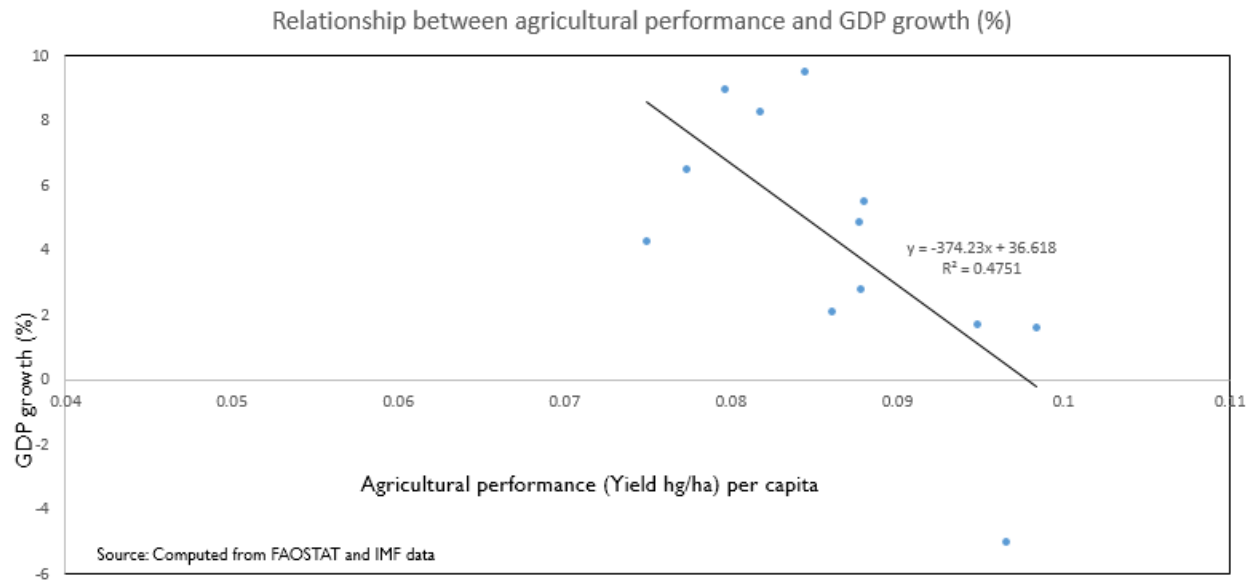


This computation is based on yield of maize, tobacco, tea, sugarcane, and coffee as major crops grown in Malawi (Chirwa et al. 2008:15). While analysis of agricultural performance for the first decade of independence should have included 1964 and 1965, I have skipped these two years due to missing data on sugarcane production. This helps to ensure fair comparison of agricultural performance between the first decade of independence and the period 2000-2011.

4.0 RELATIONSHIP BETWEEN AGRICULTURE PERFORMANCE AND ECONOMIC GROWTH

To determine the relationship between agricultural performance and economic growth, I plotted a scatter chart to appreciate correlation between agriculture yield and GDP growth from 2000 to 2011 as shown in figure 4 below.

Figure 4: Relationship between agricultural performance and GDP growth



According to the regression line in figure 4, it shows that there is negative correlation between agricultural yield and GDP growth rate in the period 2000-2011. While this negative correlation does not necessarily mean that there is causality, I run a test statistic using the P-value method with alpha level: $\alpha = 0.05$ as follows.

$H_0: P = 0$ (No significant linear correlation)

$H_1: p \neq 0$ (Significant linear correlation)

$$\text{Test statistic } t = \frac{r}{\sqrt{\frac{1-r^2}{n-2}}} = 3.008529$$

P-value = 0.045764 (computed from Excel with n-2 degrees of freedom)

P-value < α

Therefore, we reject $H_0: P = 0$

4.1 Interpretation of results

Considering that P-value 0.045764 is less than the significance level ($\alpha = 0.05$), it means that there is evidence that poor GDP growth is a result of poor agricultural performance. This is also supported by the fact that agriculture is the backbone of Malawi's economy which accounts for more than one-third of GDP (World Bank 2003). Malawi should not expect to benefit from globalization with low agricultural production.

Unlike today, in around 1960s and 1970s when Malawi attained independence, there was a shared notion that the future of the country's economy was in the hands of Malawians. Agriculture was performing well with major crops including maize, tobacco, tea, cotton, and sugarcane, and the country was self-sufficient (Chirwa et al. 2008:1-15). These crops attracted foreign investors such as Crown Fashion and David Whitehead and Sons which manufactured clothes from cotton, and BAT which produced tobacco cigarettes. Also, rubber production from Malawi's Vizara estate attracted investors like Shoe Rubber Company which manufactured rubber products such as gumboots, moccasin, Sofia shoes, and gloves. All these products were for both export and local consumption. This provided import substitutes and raised net exports, which stabilized Malawi's GDP growth rate at an average of 6 percent between 1966 and 1977 (Computed from IMF data).

However, the decline of agricultural production per capita today has impacted negatively on Malawi's economy. Malawi should not expect to benefit from globalization with an average yield of 0.09 hectograms per hectare (hg/ha) per capita. Unfortunately, Malawi still clings to old agricultural practices of the 1960s which are expensive, laborious and inefficient. For example, 5.3 million hectares of arable land is cultivated manually by smallholder farmers with farm implements such as hoes and bull-drawn ploughs, yet agriculture accounts for more than one-third of GDP and 90 percent of Malawi's exports (World Bank 2003). In addition, instead of exploring other crops that are safe for human consumption, Malawi continues to rely on tobacco for foreign earnings, yet it is well known that tobacco accounts for about six million deaths across the globe every year, and the world's demand for tobacco is declining (WHO 2015). There is no way Malawi's economy can grow from tobacco with tobacco resistance from the international community. Also, Malawi continues to depend on rain-fed agriculture despite experiencing unpredictable climatic conditions in the past three decades. This cannot help Malawi to gain economically from globalization. While survival on the global market requires that one offers competitive prices, Malawi cannot withstand the competition with countries which produce beyond normal limits because of advanced and efficient agricultural technologies.

Another challenge is education system. Instead of encouraging entrepreneurship or innovativeness to spark ideas that could improve agricultural production or discovery of

alternative economic activities to make Malawi competitive on the global stage, Malawi's education seems to be oriented towards administrative jobs. The main institutions of higher learning are much focused on preparing students to be employed in government, foreign aid agencies, and private companies rather than encouraging entrepreneurial activities to contribute towards Malawi's economic growth. For example, while one would expect those who graduate from agriculture training institutions like Lilongwe University of Agriculture and Natural Resources (formerly called Bunda) to embark on farming and lead by example, almost 100 percent end up being employed by the government or private sector (Welsch et al. 1987). Farming is left to people who have no formal training in agriculture, yet it is the backbone of Malawi's economy. Can Malawi really expect to benefit from globalization when agriculture is neglected? It might be said that Malawi has no one to blame for not benefiting from globalization but herself.

5.0 CONCLUSION

The claim that Malawi's economy has not benefited from globalization because rich countries manipulate global trade is unfair because globalization is complex and unmanageable. Globalization is an opportunity for economic growth and any country can benefit as long as they are competitive on the global market. However, neglecting agriculture seems to have resulted in the decline of production in Malawi, thereby leaving the country with little to offer on the global market since agriculture is the backbone of Malawi's economy. In addition, Malawi clings to harmful crops like tobacco which is not on demand across the globe. These appear to be the reasons why Malawi's economy has not gained from globalization today. Therefore, it is recommended for Malawi to refocus her attention on agriculture by adopting crops that are on high demand and agricultural machineries to improve efficiency, and scale up irrigation to overcome unpredictable weather conditions. Also, Malawians with formal training in agriculture must take farming seriously and lead by example. As long as agriculture remains neglected, Malawi should never expect economic gains from globalization.

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