



REPORT ON KAS-ECAMA-MEJN SEMINAR ON DEVALUATION OF MALAWI KWACHA: ANY EFFECT ON THE EXPORT MARKETS? ON 28 JUNE 2012

Quotable Quote

Tea is globally one of the most popular and lowest cost beverages, next only to water. Tea is consumed by a wide range of age groups in all levels of society. More than three billion cups of tea are consumed daily worldwide.

~Mr. Mischeck Esau~

1. Background:

The joint seminar on *Devaluation of Malawi Kwacha: Any effect on the Export Market* took place at Hotel Victoria in Blantyre on the 28th June 2012. The Seminar was co-organized and co-hosted by the Economics Association of Malawi (ECAMA), Malawi Economic Justice Network (MEJN) and the Konrad Adenauer Stiftung (KAS) who also sponsored the event. At the core of the seminar was a discussion on the effects of devaluation of Malawi Kwacha on the export markets and finding out whether Malawi can increase volume of production of the already existing products it exports e.g. tea. The seminar brought together economist, traders, scholars, development and financial analysts and donor agency representatives, interested citizens, and the media among other participants.

2. Presentations:

The first presenter, Dr. Thomas Munthali spoke on **“the Short-run and Long-run Trade Balance Response to Exchange Rate Changes in Malawi.”** In his presentation, Dr. Munthali said, government will need to put in place, measures to increase the country's exports in addition to the devaluation and liberalization of the Malawi Kwacha. Dr. Thomas Munthali who is the former president of ECAMA said, by devaluing the Kwacha, government has only addressed the demand side of the equation. Hence, the government needs to address the supply side of the equation. He said that, in order to boost exports, government should now work towards prioritizing and improving infrastructure, markets and quality standards of the already existing products such as sugar, tea and coffee. He however said that, what is most exciting is that, there is Exports Development Fund. He mentioned that, if that fund

can be utilized in improving the supply side of the equation in order to boost exports, then Malawi is likely to move in the direction that government wishes it to go.

The second presenter Mr. Sangwani Hara, who is the Group Finance Manager of Global Tea & Commodities (Malawi) Limited spoke on '**Devaluation of Malawi Kwacha – The Effects on Exports with Particular Reference to Tea**'. Mr. Hara s said that, the devaluation of Malawi Kwacha against the US Dollar has had positive effects on the tea industry in Malawi at the enterprise level. He observed that, in MK terms devaluation has delivered new marginal revenue and marginal cost configuration which has resulted in profits. He mentioned that, there has been a 55% average increase in revenue against a 35% average increase in costs. However, he noted that, in the USD terms, marginal revenue has remained the same but the marginal cost has decreased. In his presentation, he cited that, the profits and positive cash flows that have been generated are required to sustain production and re-investment.

In his conclusion, he said that, the underlying assumption that the exporter is contented with local currency is an over simplification of reality in countries like Malawi where there is chronic shortage of foreign exchange. He cited that, tea producers in Malawi were opposed to Malawi Kwacha as the currency of trade on the Limbe auction and in 1993; they successfully lobbied government for the trade to be conducted in USD. He observed that, with this scenario, devaluation does not necessarily motivate the exporter to produce more. Where there is significant change in the cost profile arising from devaluation as is the case in tea, devaluation does not achieve the targeted export volume. This is due to the shift in the equilibrium as a result of the change in the change in the average cost curve.

The respondent to the two presentations was Mr. Mischeck Esau, Managing Director of CDH Investment Bank Limited. In his response to the two presentation he observed that, the Tea industry in Malawi has great potential but is facing a number of problems that need attention by policy makers. There is need to support small holder farmers, promote social development and improve infrastructure, among others if Malawi is to boost exports market is cash crops like Tea and Sugar.

3. Outcomes:

From the questions and comments made by participants, and the responses provided by presenters, the following outcomes emerged from the Seminar that Malawi should:

- a) Increase volume of production of the already products it exports e.g. sugar, coffee, and tea
- b) Add value to "raw" products being exported e.g. tobacco and cotton
- c) Identify/explore other non-traditional markets to expand areas of trade to support increased production.

1. Way Forward

- a) Government should address issues that will significantly boost exports i.e. improving infrastructure. Failure to do that, the devaluation will just make imports expensive and without any corresponding growth in exports.
- b) Government should intensify the provision of export market information and assist potential exporters by training them in export procedures.
- c) The policy on devaluation should be constantly reviewed in order to ensure that the Malawi Kwacha value is realistically aligned with market expectations.
- d) Participants recommended for follow-up Seminars to take the discussion further on devaluation and its effect on the export market in Malawi.

KAS Malawi, Lilongwe Thursday 12th July 2012