

# THE BUSINESS PERSPECTIVE



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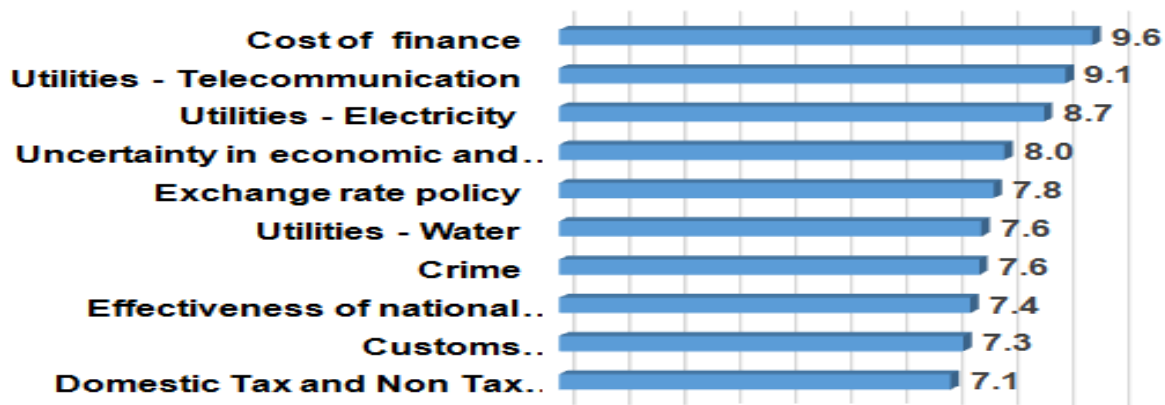
**January 2017**

**Main feature article in this first issue:**

## ***LEARNING FROM TRUMPONOMICS – WHAT CAN MALAWI TAKE FROM MR. DONALD TRUMP’S ECONOMIC STRATEGY TO REVIVE ITS AILING ECONOMY?***

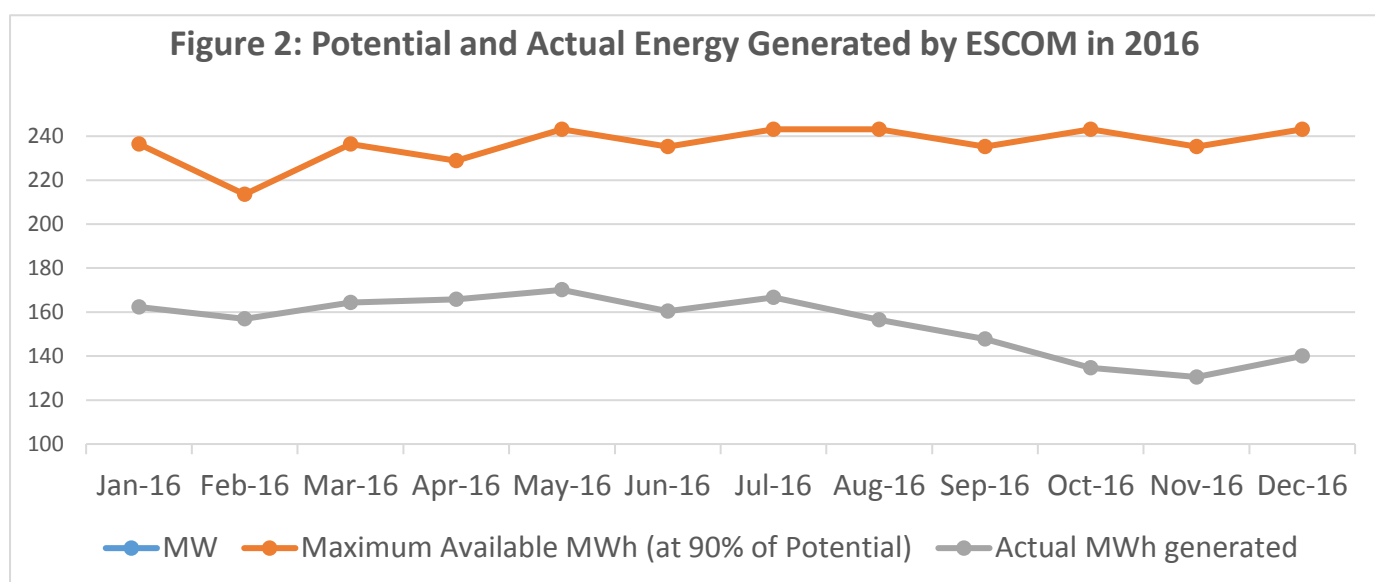
Welcome to 2017. Good bye to 2016. The year 2016 is a year to forget very quickly from the business angle. All the macroeconomic indicators such as inflation and interest rates, stayed in the negative territory. Factors that impinge upon business performance were all at work in full force. Figure 1 below shows how businesses perceived some business environment factors in relation to their seriousness to doing business in 2016.

**Figure 1: Major Obstacles to Doing Business in Malawi in 2016**



For an economy that is import dependent but aspires to become production and export orientated, i.e. an economy that strives to export value added, industrial goods, electricity supply and its quality must be top on its priority list. Electricity is an obligatory input into any process of industrialization and as such needs an actionable long haul strategy. That is not the case for Malawi despite

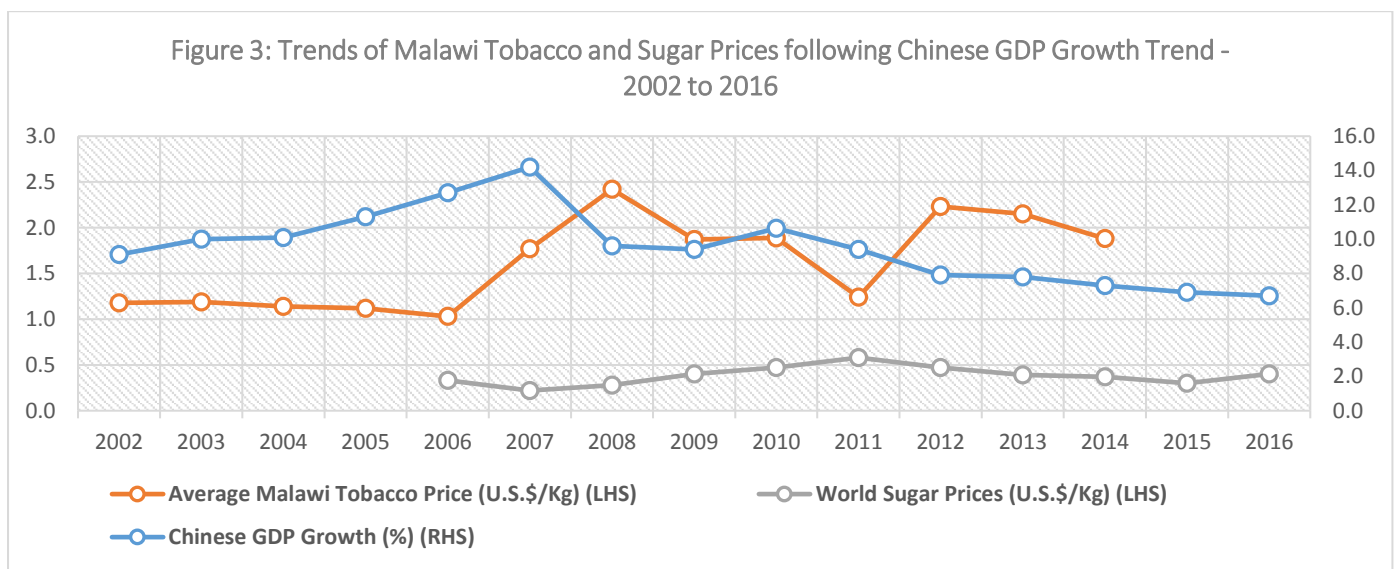
Government rhetoric, as there has thus far been much talk but less action, including shifting of blames to past political regimes, which really has not been of assistance to businesses. Industry in Malawi has been provided with varying explanations for the low generation levels of electricity. For last year it was due to low levels of water in the Shire River along which the generation plants are located, following two succeeding years of low rainfall. In other years, however, high levels of water on the same Shire River have been blamed for the disturbances in the generation of electricity. It is difficult to decipher which reasoning holds. On the basis of lack of uniformity in these justifications, one is tempted to conclude that leadership of the utility company called ESCOM is in short supply. The fact remains, however, that industry has been deprived of a much needed resource which has led to a high degree of industrial capacity under-utilization for even the few remaining industries, and its obvious consequences such as workers being declared redundant. Figure 2 below shows the variation in the levels of generation of electricity in 2016 and the available capacity.



*Source:* Author's conversion of ESCOM's capacity (for maximum available MWh discounted by 10 percent coincidence factor), and ESCOM (Actual MWh generated)

Whilst domestic challenges to doing business persist, a host of other factors that are global and regional in nature continue to pound on the Malawi economy. In a closely knitted global economy – for the time being at least - developments in one part of the world have ripple effects on the prospects of a far-away economy. The global economy is connected through movement of goods and services (i.e. international trade); movement of capital or finance (i.e. investments and/or loans); and movement of people (migration). This is what is termed globalisation. In 2016 Malawi's main exports – tobacco and sugar especially - fetched much less revenue than anticipated. The prices of these commodities are linked to developments in the international arena. One major influence on the

prices of these commodities – just like the prices of other commodities – was the slowdown of economic growth of major emerging economies especially China and India in the past few years. The prices of commodities have, for more than a decade now, been buoyed by the rapid growth of the Chinese and, to some extent, the India economies. The fact that the economic growth rate of these economies has been tapering since the financial and economic crisis of 2008 has been followed by declining prices of commodities in a lagging manner as seen in figure 3 below. A spate of high economic growth of the Chinese economy over a period of time is transmitted into a rise in the prices of commodities in three or so years to come. Likewise a slowdown in growth has a lagged effect on commodity prices after more or less similar period.



Because the global economy is highly intertwined, the year 2017 will principally be characterized by the effects of the economics of Mr. Donald Trump – the new President of the United States of America, the withdrawal of the United Kingdom from the European Union following the Brexit vote, and growth prospects in the main emerging economies of China and India. The Malawi economy will feel the reverberations of such ‘shocks’ or disturbances to the world economic order. But what exactly is Mr. Trump doing that is causing so much anxiety? And what does the withdrawal of the United Kingdom imply for an economy such as Malawi’s?

Despite all the malevolent sentiments that the world is making on Trumponomics – a term coined to represent the economic thinking and strategy of Mr. Trump, Mr. Trump seems to be getting a few things right, except that what he is doing should ordinarily be done by a developing country president. However, it is common to see a country in an economic tailspin, as the United States is with respect to jobs and balance of payment position, adopt such inward looking measures. It is not a secret anymore that from the viewpoint of free movement of goods and services, evidently globalisation benefits economies that are tilted towards exporting more than those that are import

dependent like Malawi. On the one hand, economies that produce goods and services that are consumed locally (i.e. non-tradable goods) end up losing – the majority of factories in such economies shut down as a result of heavy competition arising from imports from already competitive economies. On the other hand, economies that produce goods and services that are exported (i.e. tradable goods) benefit tremendously. They take advantage of the expanded market and reduce their average unit costs through economies of scale. The U.S. imports more than it exports on average. It is common knowledge that its balance of trade is in trillions in the negative territory. Some of its exporting companies have moved to produce their goods and services elsewhere because, mainly, of wage competitiveness reasons.

When local companies are decimated by competition, the natural instinct is for leadership to move quickly to manage the foreign competition. We think that that is the reason why Mr. Trump keeps threatening American companies that continue to manufacture goods from outside America with a 35 percent border tax when those goods are imported into America. When your companies have moved away due to competitiveness reasons, you invite them back and offer them incentives. That's what Mr. Trump is doing. Mr. Trump knows that an economy does not create jobs by making it easy for imports to obliterate local companies. Jobs are created by local manufacturing, and other companies. Whatever it will take to bring back the lost glory to America, Mr. Trump seems determined to do it. That is a big lesson for Malawi, a perennial net importer, which appears to cherish imported goods which are serviced with donor money and/or loans.

According to the World Bank's Enterprise Survey (2007), Malawi exports only 14 percent of what it manufactures. That situation qualifies Malawi as an economy which derives its aggregate income from non-tradable goods. As a consequence, Malawi's manufacturing industries disappeared when the country liberalized its economy. When one enters a shop these days, one is welcomed by shelves filled with a sea of imported goods paid for by foreign exchange from donors. However with the waning of donor assistance, imports will not be propped up forever. Malawi thus needs to stand on its own feet. Malawi needs a 'Mr. Trump' to decisively put Malawi first; not other countries first through promoting their exports into Malawi. There is no reward in being a nice guy to the advocates of liberalization and globalisation – the International Monetary Fund (IMF), the World Bank, and the U.S. Treasury.

It is ironic that after steering a new world economic order in which liberalization and globalisation as wealth creating phenomena, the Americans have realized that the order benefit citizens of a country selectively and widens inequalities both between countries and within countries. Redistribution of wealth and employment opportunities tilts in favour of those involved in exporting sectors. Sectors that produce non-tradable goods and services experience lower economic activity and in some if

not most cases, are annihilated. That is exactly what happened in Malawi. It is what transpired in all similar economies. In truth all the currently developed economies, *in their initial stages of development*, applied 'protectionist' and, 'infant industry' policies starting with Great Britain itself as the first country that industrialised. Later, in 1791 Alexander Hamilton, U.S. Treasury Secretary, founded the 'infant industry' protection policy, with a view to industrializing America against imports from Great Britain. If countries such as the U.S. are protecting their borders now, why should Malawi accept the undesirable consequences of globalisation in silence? It is high time the Malawi Government acted to serve the few remaining industries against malign foreign competition. Private sector will not create jobs on its own; Government will need to play a developmental role by creating a meaningful business environment – an environment that recognizes that infant industries need time to mature; just like industries in developed economies were given time to become what they have become today. In 1776 Adam Smith, in his famous book, *An Inquiry into the Nature and Causes of Wealth of Nations*, advocated for free trade. However, this was *after* Great Britain had embarked on industrialization and was looking for markets for its manufactured products. The obvious logical solution to its aspirations continue with economic dominance was to sell manufactures to other countries, destroying other countries' hopes of industrializing in the process. If the U.S., a developed economy, is closing its borders to imports, why should a least developed economy such as Malawi continue to keep its doors open without any measures of industry protecting measures?

By stressing the need to put America first, Mr. Trump knows that there is a difference between serving *individual interests*, driven by Adam Smith's *invisible hand*, and serving the *national interest*. An aggregate of individual interests may diverge from the national or society's needs. That is why governments have to provide public goods and services that a purely private individual would not have interest to provide. Globalisation and/or free trade has indeed led to unprecedented growth of the world economy but has not necessarily maximized national welfare of each country. Some economies have benefited more than others. Globalisation has benefited countries that have a productive capacity and are therefore in a position to take advantage of the expanded global export market opportunities. Liberalization without possessing the necessary productive capacity leads to loss of the local market to imports, loss of jobs due to shut-downs of yet to be competitive industries, and infinite postponement of industrialization aspirations of poor countries.

# ECONOMIC UPDATE

## Economic Growth remains weak at the outset of 2017!

Economic growth remains weak at the outset of 2017 as projections remain at 2.9 percent in 2016 and 5.7 percent in 2017 which are downward revisions from 5.1 percent in 2016 and 7.0 percent in 2017 (2016 Annual Economic Report). The real sector continues to be affected by a myriad of factors including high and prohibitive cost of accessing financing from the financial sector, which mirrors the sluggish pace of economic development, especially as there are no attractive alternative financing mechanisms.

### 1. Developments in the Money Market

The money market - a section of the financial market where financial instruments such as treasury bills, commercial papers and certificates of deposit are traded - is used by many participants, including companies, to raise funds by selling commercial papers in the market. The money market is usually considered a safe place to invest due to the high liquidity of securities. Like any other market the price which can be in the form of interest rate remains key for a decision to be made.

#### 1.1. Interest Rates and the Money Market

- There was an increase in both total applied and allotted values on treasury bills in the month of January 2017 which were recorded at K47.68 billion and K38.4 billion respectively from their counterparts of K46.5 billion and K17.44 billion the previous month. However, this shows a relative reduction in investor demand between the two months as the ratio of applications against allocations was greater in December 2016 compared to the month under review. The non-movement in the yields could be attributed to an uncertain outlook in inflation and economic growth at the onset of the year as investors adopted a 'wait and see attitude'
- Treasury Bill are a type of bond that is issued by Government with a view to raising money from the public but can also be used to regulate the money market where liquidity is high. The average yield on the 91 days and 182 days treasury bills were stable only moving from 23.95 percent to 23.89 percent and from 25.38 percent to 25.40 percent respectively between December 2016 and January 2017. This was also the case with yield on the 364 days bill which only recorded a negligible move from 25.985 percent to 25.996 percent in between the two time periods.
- The bond market can be a great predictor of future economic activity and future levels of inflation. The decrease of yields in an economy is a reflection of lower inflation expectations even though lower inflation expectations also tend to overlap with sluggish economic growth. However, Malawi economic growth is in a kind of stagnation and under such conditions, alternative investments have little appeal (as there is so little growth) and investors might as well pile further into bonds. The solution is to stimulate growth.
- Maturities of treasury bills, notes and bonds amounted to K42.32 billion and through its open market operations, the RBM mopped out K11.5 billion from the liquidity system in the month. Considering what was withdrawn using treasury bills, this translates to a net withdrawal of about K7 billion in the month.
- There was a recorded increase in traded volume on the interbank market at MK20 billion during the week ending 20<sup>th</sup> January 2017 from MK6.9 billion the previous week which was associated

with a fall in interbank rate from 23.54 percent to 22.71 percent. Most interbank loans are for maturities of one week or less, the majority being overnight loans. Banks borrow and lend money in the interbank lending market in order to manage liquidity and satisfy regulations such as Reserve Requirements. Since banks may face liquidity shortages at the end of the day, the interbank market allows banks to smoothen through such temporary liquidity shortages and reduce 'funding liquidity risk'. Some banks, on the other hand, have excess liquid assets above and beyond the liquidity requirements. Interbank loans are important for a well-functioning and efficient banking system.

## **1.2. Exchange Rate and Foreign Reserves**

- The Malawi Kwacha registered relative stability against the United States Dollar and the British Pound although having depreciated by 1 percent against the South African Rand. This has been anchored by a sustained improvement in foreign exchange reserves which totaled US\$946.96 million (4.53 months of equivalent import cover) rising from US\$922.34 million (4.41 months equivalence of import cover) the previous month. This makes available foreign exchange for businesses to run as gross import cover remains above 4 months.
- Government through the Reserve Bank of Malawi is still implementing a tight monetary policy stance - an indirect approach to ensure foreign exchange stability. According to the Reserve Bank of Malawi, the current policy framework is that the instrument, Policy Rate used, is forward looking in order to contain inflation and to protect foreign exchange reserves. The Kwacha has consequently been stable and despite the drop in exports, the country's official foreign exchange reserves remain at least 3 months of import cover.

## **2. Stock Market Developments**

- The stock market was bearish – with security prices falling - in the week ending 20<sup>th</sup> January 2017 having registered a decline of 136.48 in the Malawi All Share Index (MASI) whilst the Foreign Share Index (FSI) was steady. The decrease in stock or share prices does reflect an unhealthy economy especially since in 2016 on average the stock prices decreased as well. The prices of shares are affected by profitability of companies and the drop in prices of shares reflects a decline in profitability of listed companies. The fall of security prices sets the stock market on a downward spiral and as such investors anticipate losses as pessimism and selling continues. In 2016 the stock market registered a negative return of investment in dollar terms of -15.70 percent and the prospects for 2017 are unlikely to turn around.
- Trading activity was recorded outside the formal Malawi Stock Exchange where dealers are also involved for each of the following companies; ILLOVO, MPICO, NBM, NBS, NITL, STANDARD Bank and TNM and a total of 1,581,982 shares were transacted at a total consideration of MK25,275,925.70 (US\$34,842.69) in 27 deals.
- Listing has not been desirable by most businesses because of several factors. Corporate Governance practice is key to listing on the stock market and in Malawi there are many family businesses which have their own way of management and would not want to change. This makes it difficult for them to list. Secondly, investors would not invest in a market which they do not understand, which has caused many potential investors to shy away from investing on the stock market. It has further been observed that individual investors have been disposing shares out of desperation to fund personal expenses due to the state of the economy which plays a major role.

## **3. Other Local Developments**

- The National Statistics Office released inflation figures for December 2016 whereby a 0.1 point increase in overall inflation was recorded. Food inflation eased from 24.8 percent to 24.4 percent

but this was superseded by an increase in non-food inflation from 15.20 percent to 15.40 percent.(Trend provided in the Annex)

- The Department of Climate Change and Metrological services projects a generally normal to above normal total rainfall amount over greater part of the country by the end of the season.
- Consequently, the agriculture sector is expected to rebound from consecutive negative growth and is expected to grow at 5.9 percent in 2017 according to the Reserve Bank of Malawi (Trend provided in the Annex).
- The country's current account deficit worsened by 31 percent in 2016 after it had improved by 32 percent in 2015 according to statistics from the Reserve Bank of Malawi. The projected deficit for 2017 currently stands at 8 percent owing to continued poor exports performance.

#### **4. Regional Developments**

- Growth for Sub-Saharan Africa is expected to improve in 2017 and 2018 following projected relative growth pickups in two of the region's largest economies of South Africa and Nigeria (due to expected oil production increases as security improves) according to International Monetary Fund (IMF). Improved regional performance creates wide range of opportunities for economies within the region.

#### **5. Global developments**

- The IMF released its first global economic outlook in the week beginning 16<sup>th</sup> January 2017. Global growth is projected at 3.1 percent and 3.4 percent in 2016 and 2017 respectively with economic activity projected to pick up pace in 2017 and 2018, especially in emerging markets and developing economies. Uncertainty surrounding the policy stance of the United States of America's new administration and its global ramifications are causing dispersions in the projections which can only be more specific later in the year. Global economic growth does create opportunities as aggregate levels of income increase to create demand for more products. Malawi would therefore take advantage of this growth to identify market opportunities at global level.
- The average price of the global oil basket was steady at US\$52.05 per barrel having lost 2 percent of its value in the first week of the year and this situation is likely to prevail for the next few months with less significant price changes. The local pump price is likely going to be steady in view of the international price picture, the stability of foreign exchange and considering that the tobacco sales would start in a few months' time.



## ANNEX: ECONOMIC INDICATORS

Table 1: Exchange Rates

	Currency	USD	GBP	EUR	ZAR
20-Jan-17	<b>Buying</b>	716.75	885.33	765.2	52.96
	<b>Selling</b>	734.75	907.56	784.42	54.29
	<b>Middle</b>	725.75	896.44	774.81	53.62
13-Jan-17	<b>Buying</b>	716.68	871.85	760.69	52.96
	<b>Selling</b>	734.68	893.74	779.79	54.29
	<b>Middle</b>	725.68	882.79	770.24	53.62
6-Jan-17	<b>Buying</b>	716.3	886.78	757.92	52.575
	<b>Selling</b>	734.29	909.05	776.95	53.896
	<b>Middle</b>	725.29	897.91	767.43	53.236
30-Dec-16	<b>Buying</b>	715.8	879.08	753.88	52.606
	<b>Selling</b>	734.22	901.69	773.28	53.96
	<b>Middle</b>	725.01	890.38	763.58	53.283
23-Dec-16	<b>Buying</b>	715.82	879.75	747.96	51.018
	<b>Selling</b>	734.24	902.38	767.21	52.331
	<b>Middle</b>	725.03	891.06	757.58	51.675
16-Dec-16	<b>Buying</b>	715.59	888.97	746.57	51.237
	<b>Selling</b>	734.58	912.57	766.39	52.597
	<b>Middle</b>	725.08	900.77	756.48	51.917
9-Dec-16	<b>Buying</b>	716.41	901.46	765.57	52.407
	<b>Selling</b>	735.58	925.58	786.05	53.809
	<b>Middle</b>	726	913.52	775.81	53.108
2-Dec-16	<b>Buying</b>	716.29	903.53	765.57	50.91
	<b>Selling</b>	735.45	927.7	786.05	52.272
	<b>Middle</b>	725.87	915.62	775.81	51.591

Source: Reserve Bank of Malawi

**Table 2: Foreign Reserves**

	Gross official		Private sector		Total	
	Reserves (millions )	Import Cover (months)	Reserves (millions )	Import Cover (months)	Reserves (millions )	Import Cover (months)
20-Jan-17	606.62	2.9	325.06	1.56	931.68	4.46
13-Jan-17	599.54	2.87	328.47	1.57	928.01	4.44
6-Jan-17	607.36	2.91	339.33	1.62	946.69	4.53
30-Dec-16	585.68	2.8	336.66	1.61	922.34	4.41
23-Dec-16	581.5	2.78	332.01	1.59	913.51	4.37
16-Dec-16	580.81	2.78	330.33	1.58	911.14	4.36
12/9/2916	574.41	2.75	333.83	1.6	908.24	4.35
12/2/2016	578.47	2.77	300.65	1.44	879.12	4.21
25-Nov-16	574.41	2.75	315.61	1.5	890.02	4.25
18-Nov-16	598.97	2.87	303.27	1.45	902.24	4.32
11-Nov-16	615.37	2.94	306.18	1.46	921.55	4.4
4/11/2016	621.59	2.97	322.68	1.54	944.27	4.51
28-Oct-16	610.32	2.92	332.62	1.59	942.94	4.51
21-Oct-16	616.98	2.95	332.53	1.59	949.51	4.54
14-Oct-16	614.04	2.94	330.41	1.58	944.45	4.52
7-Oct-16	618.39	2.96	327.13	1.57	945.52	4.53
30-Sep-16	598.17	2.86	332.51	1.59	930.68	4.45
23-Sep-16	593.49	2.84	338.95	1.62	932.44	4.46
16-Sep-16	605.77	2.9	338.14	1.62	943.91	4.52
9-Sep-16	612.47	2.93	330.18	1.58	942.65	4.51
2-Sep-16	609.39	2.92	332.07	1.59	941.46	4.51
26-Aug-16	612.71	2.93	336.61	1.61	949.32	4.54
19-Aug-16	631.71	2.93	343.42	1.64	975.13	4.57
12-Aug-16	621.2	2.97	332.07	1.73	953.27	4.7
5-Aug-16	603.82	2.89	333.34	1.59	937.16	4.48
29-Jul-16	629.14	3.01	337.05	1.61	966.19	4.62
22-Jul-16	630.96	3.02	323.59	1.55	954.55	4.57
15-Jul-16	606.63	2.9	350.51	1.68	957.14	4.58
8-Jul-16	626.29	3	339.32	1.62	965.61	4.62
1-Jul-16	602.44	2.88	359.06	1.72	961.5	4.6
<b>19-Jan-16</b>	<b>610.19</b>	<b>2.92</b>	<b>330</b>	<b>1.58</b>	<b>940.19</b>	<b>4.5</b>

Source: Reserve Bank of Malawi

**Table 3: Interest rates and Inflation movements**

Week ending	Policy rate (%)	Lending rate (%)	Interbank rate (average %)	Inflation rate (%)
20-Jan-17	24	33.6	22.71	20
13-Jan-17	24	33.6	23.54	19.9
6-Jan-17	24	33.6	24.87	19.9
30-Dec-16	24	33.6	25.13	19.9
23-Dec-16	24	33.6	25.36	19.9
16-Dec-16	24	33.6	24.98	19.9
12/9/2016	24	33.6	24.70	20.1
12/2/2016	24	33.6	24.99	20.1
25-Nov-16	24	36.2	27.13	20.1
18-Nov-16	27	36.2	27.31	20.1

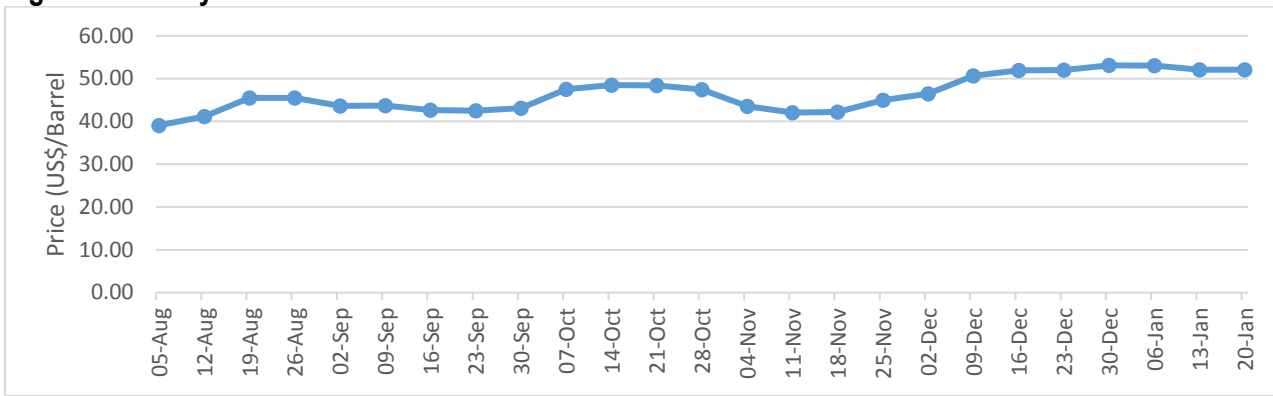
Source: Reserve Bank of Malawi

**Table 4: Stock Market Performance**

	MASI	DSI	FSI	Weekly Change (MASI)
20-Jan-17	13,352.09	10,482.03	2,026.07	136.48▲
13-Jan-17	13,488.57	10,590.57	2,026.07	128.94▼
6-Jan-17	13,359.63	10,488.03	2,026.07	39.12▼
30-Dec-16	13,320.51	10,456.92	2,026.07	0.00■
23-Dec-16	13,320.51	10,456.92	2,026.07	459.44▼
16-Dec-16	12,861.07	10,091.54	2,026.07	21.73▲
12/9/2016	12,882.80	10,108.82	2,026.07	6.95▼
12/2/2016	12,875.85	10,103.29	2,026.07	14.14▲
25-Nov-16	12,889.99	10,114.54	2,026.07	592.62▲
18-Nov-16	13,482.61	10,585.83	2,026.07	71.62▼
11-Nov-16	13,410.99	10,528.86	2,026.07	310.78▲
4/11/2016	13,721.77	10,776.06	2,026.07	38.86▼
28-Oct-16	13,682.91	10,745.15	2,026.07	46.74▼
21-Oct-16	13,636.17	10,707.97	2,026.07	76.82▲
14-Oct-16	13,712.99	10,769.08	2,026.07	78.83▼
7-Oct-16	13,634.16	10,706.38	2,026.07	109.96▲
30-Sep-16	13,744.12	10,793.07	2,026.07	112.64▼
23-Sep-16	13,631.48	10,704.24	2,026.07	141.56▼
16-Sep-16	13,489.92	10,609.70	1,762.13	232.37▼
9-Sep-16	13,257.55	10,424.86	1,762.13	82.34▼
2-Sep-16	13,175.21	10,359.37	1,762.13	0.85▼
26-Aug-16	13,174.36	10,358.69	1,762.13	9.10▼
19-Aug-16	13,165.26	10,351.46	1,762.13	251.86▼
12-Aug-16	12,913.40	10,151.12	1,762.13	217.26▲
5-Aug-16	13,130.66	10,323.93	1,762.13	250.84▲
29-Jul-16	13,381.50	10,523.46	1,762.13	311.67▼
22-Jul-16	13,069.83	10,275.55	1,762.13	213.36▼
15-Jul-16	12,856.47	10,105.84	1,762.13	73.26▲
8-Jul-16	12,929.73	10,164.11	1,762.13	2.36▼
1-Jul-16	12,927.37	10,162.23	1,762.13	39.99▼

Source: Malawi Stock Exchange

**Figure 1: Weekly Performance of Global Fuel Prices**



**Source: Organisation of Petroleum Exporting Countries**