IS IT TIME FOR MALAWI TO CHANGE ITS ECONOMIC GROWTH ENGINE? EVIDENCE FROM NEW STRUCTURAL ECONOMICS

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ABSTRACT

Malawi is a low-income country, despite considerable economic and structural reforms to support economic growth. Agriculture is a major driver of the economy and contributes 36% to national output, generates more than 80% of export earnings, and employs more than 80% of the workforce. The study seeks to identify sectors in Malawi with high growth and employment potential. The study employs the growth identification and facilitation framework, a practical policy instrument operationalizing key insights of new structural economics, to assist policymakers in developing countries in identifying industries and products in which they have a comparative advantage. Using Bangladeshi, China, Rwanda, and Vietnam as comparator countries, the agriculture, manufacturing, and tourism sectors emerge as the development potential of Malawi that can be significantly transformed into competitive advantages. Policy implications emanating from his study include the need for policies that will enhance the business environment and encourage the export of goods and services with added value, especially in the sectors where Malawi has a comparative advantage.

Keywords: Comparative Advantage; Economic Growth; Growth Identification and Facilitation Framework; Malawi; New Structural Economics
INTRODUCTION

Malawi, a landlocked country in Southern Africa, has shared borders with Mozambique, Tanzania, and Zambia. Its population is currently at 20.41 million and is projected to double by 2028. Malawi is a low-income country, despite considerable economic and structural reforms to support economic growth. Agriculture is a major driver of the economy, contributes 36% to the gross domestic product (GDP), generates more than 80% of export earnings, and employs more than 80% of the workforce. This situation makes the nation vulnerable to outside shocks, particularly climatic shocks (Mwase et al., 2014; The World Bank Group, 2023).

Since gaining its independence in 1964, Malawi has developed and implemented several development strategies to enhance the socio-economic landscape of the country. The institutional setting, as well as the developmental stage at independence, were crucial in determining the structure and content of future development policies. During this period, Malawi had a mixed economy that was predominately planned by the government. The focal point of such development plans was the agricultural sector, with major investments supported by public investments and foreign aid (Chirwa & Odhiambo, 2016).

Malawi has an extremely young population, with 46% of the population under 15. The substantial increase in working-age individuals gives Malawi the chance to benefit from the demographic dividend, but it might also be a concern if there is not a rise in job prospects. Despite many youths playing a role in the labor force, work quality and underemployment, remain a challenge (Organisation for Economic Co-operation and Development (OECD), 2018). Also, Malawi continues to experience weak economic growth, coupled with high and persistent poverty (Caruso & Sosa, 2022). It therefore follows that Malawi needs a portfolio of targeted interventions that will structurally transform its economy.

Economic discussion and study have long focused on how to encourage economic growth. In recent decades, economic growth has not been well explained by a variety of theories and models (Bere et al., 2014). The theory of economic growth has changed over time, depending on the period and the prevailing economic dynamics. Additionally, advancements in statistical and mathematical tools have significantly influenced the development of new ideas and policies (Boldeanu & Constantinescu, 2015). The growth experience in many countries demonstrates that governments frequently play a crucial role in facilitating industrial transformation, despite the long-standing emphasis in previous theories that market mechanisms are necessary to achieve correct relative prices and thereby facilitate an efficient allocation of factors (Lin, 2012).

New structural economics (NSE) conceptualizes these key characteristics of growth, by incorporating some of the lessons from old structural economics, namely, the importance of considering structural characteristics of developing economies when analyzing the process of economic development, and the role of the state in facilitating structural change in developing countries (Lin, 2012). NSE is a neoclassical based framework approach for rethinking structural transformation and economic development. The main novel feature of this approach is that it views structural differences between developed and developing countries as being endogenous to their endowment structures. But it is possible for developing countries to change their economic and industrial structure, by changing their endowment structure. The optimal industrial structure for a country will vary depending on the stage of development because the economy’s structure of factor endowment, which is defined as the relative...
composition of human capital, labor, natural resources, and physical capital, is given at
each stage of development and varies from one stage to another (Lin, 2012; Lin & Xu,
2016).

In light of the aforementioned, it can be seen that Malawi’s economic reforms and
policies have not done much to foster the desired expected economic growth and
development. Therefore, several questions are raised. What should Malawi’s priorities be
to promote structural change? Which interventions are most effective at reducing
unemployment? What kind of measures should be considered to boost the economy?
Answers to these questions are critical, for both a better understanding of sectors that
promote growth, and for providing policymakers the empirical evidence they need to
formulate the necessary policies for the structural transformation of the economy. This
paper aims to identify sectors in Malawi with high growth and employment potential
using the framework of New Structural Economics.

LITERATURE REVIEW
Recent Economic and Social Development in Malawi

The Malawi 2063 vision, launched in 2021, outlines three pillars that serve as a
foundation for the country’s aspiration of an inclusively wealthy and self-reliant nation.
The implementation of this vision will be carried out through a succession of 10-year
plans that will also emphasize 5-year quick-win strategies that can be put into place in
the first 5 years to accelerate the attainment of the Vision’s goals (Africa Research

Malawi’s long-term development strategy, Malawi 2063, has attainable but
constrained targets. This is because tardy debt restructuring, a protracted macro-fiscal
crisis, and delayed governance reforms have all contributed to a slowdown in economic
growth (World Bank, 2023b). Also, agricultural productivity is low, with limited
commercialization. The sector faces structural challenges such as low access to imported
input, poorly targeted subsidies, price controls, and trade restrictions, which limit
investment and export-led growth. Fiscal balances continue to be unsustainable. Rapid
economic growth is hampered by external imbalances (World Bank, 2023a).

Over the past few years since 2010, there have been considerable swings in
economic growth. The highest growth rate was 6.87% in 2010, while the lowest growth
rate was 0.8% in 2020. The weak overall economic growth reflects the agricultural
sector’s performance, which is widely considered to include forestry and fishing, and its
linkages to manufacturing, namely the agro-processing industry. More recently, the
COVID-19 crisis impacts, including disrupted supply chains.

The annual inflation rate was above 20% between 2012 and 2016. Following that,
there was a dramatic fall, and from 2019 to 2021, inflation remained a single digit for
three years in a row. However, in 2022, inflation rose again to two digits (20.95%). This
inflationary pressure is attributable to food shortages caused by the war in Ukraine.

Also, since 2010, the Malawi kwacha has been depreciating steadily against the US
dollar. The government devalued the Malawi kwacha dramatically between 2011 and
2016 (Phiri, 2022). Other factors that contributed to the depreciation include, low foreign
exchange supply, particularly from the agriculture sector, combined with a high market
demand for imported goods including agricultural inputs, drugs, and fuel. Furthermore,
the exchange rate increased from MWK364.41 in 2013 to MWK749.53 in 2020,
representing a depreciation rate of 106% (see Table 1).
Table 1
Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (annual %)</th>
<th>Inflation, consumer prices (annual %)</th>
<th>Official Exchange Rate (MWK/$)</th>
<th>GDP per Capita (current US$)</th>
<th>Total reserves (% of total external debt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6.87</td>
<td>7.41</td>
<td>150.49</td>
<td>688.14</td>
<td>31.87</td>
</tr>
<tr>
<td>2011</td>
<td>4.93</td>
<td>7.62</td>
<td>156.52</td>
<td>769.05</td>
<td>17.88</td>
</tr>
<tr>
<td>2012</td>
<td>1.90</td>
<td>21.27</td>
<td>249.11</td>
<td>563.06</td>
<td>18.38</td>
</tr>
<tr>
<td>2013</td>
<td>5.41</td>
<td>27.28</td>
<td>364.41</td>
<td>501.20</td>
<td>27.36</td>
</tr>
<tr>
<td>2014</td>
<td>5.63</td>
<td>23.79</td>
<td>424.90</td>
<td>534.13</td>
<td>36.04</td>
</tr>
<tr>
<td>2015</td>
<td>2.80</td>
<td>21.87</td>
<td>499.61</td>
<td>544.28</td>
<td>39.60</td>
</tr>
<tr>
<td>2016</td>
<td>2.50</td>
<td>21.71</td>
<td>718.01</td>
<td>454.44</td>
<td>33.07</td>
</tr>
<tr>
<td>2017</td>
<td>4.00</td>
<td>11.54</td>
<td>730.27</td>
<td>500.17</td>
<td>35.53</td>
</tr>
<tr>
<td>2018</td>
<td>4.39</td>
<td>12.42</td>
<td>732.33</td>
<td>537.93</td>
<td>33.82</td>
</tr>
<tr>
<td>2019</td>
<td>5.45</td>
<td>9.37</td>
<td>745.54</td>
<td>584.36</td>
<td>34.87</td>
</tr>
<tr>
<td>2020</td>
<td>0.80</td>
<td>8.63</td>
<td>749.53</td>
<td>622.18</td>
<td>20.20</td>
</tr>
<tr>
<td>2021</td>
<td>2.75</td>
<td>9.33</td>
<td>-</td>
<td>633.61</td>
<td>-</td>
</tr>
<tr>
<td>2022</td>
<td>0.92</td>
<td>20.95</td>
<td>-</td>
<td>645.16</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: World Development Indicators
https://data.worldbank.org/indicator

Note: ‘-’ denotes that data is unavailable (applied to the following tables, otherwise indicated).
exchange rate: 1 Malawi kwacha= 0.00086US$

Industry Contribution to GDP

Malawi’s economy is anchored by agriculture, which directly accounts for around one-third of GDP. Agriculture has a considerable contribution to economic growth, employment, export earnings, and food security. Making the agricultural industry as a growth engine for the country remains one of Malawi’s top development priorities. Crop production, primarily of maize and tobacco, dominates agricultural output. Crop output continues to be below potential (USAID, n.d.).

Agriculture value added experienced rapid annual growth in 2010, with an average annual growth rate of 6.8%, following favorable rainfall in the country. Later, there was a sharp fall, and the annual growth rate fell to -1.2%, -2.02%, and -2.33% in 2012, 2015, and 2016, respectively. This fall is largely linked to climate variability, namely the disastrous floods of 2015 and the 2016 drought brought on by the El Nino effect that Malawi experienced. On the other hand, from 2010 to 2022, the industrial value added as a percentage of GDP was comparatively constant and hovered around 18%. Last but not least, over the period under consideration, there were no significant changes in manufacturing or exports of goods and services, as a percentage of GDP (see Table 2).
Table 2
GDP and Value added (Percentage of GDP by sector)

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture, forestry, and fishing, value added (annual % growth)</th>
<th>Industry (including construction), value added (% of GDP)</th>
<th>Manufacturing, value added (% of GDP)</th>
<th>Exports of goods and services (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6.80</td>
<td>17.93</td>
<td>9.91</td>
<td>22.79</td>
</tr>
<tr>
<td>2011</td>
<td>6.10</td>
<td>18.17</td>
<td>10.07</td>
<td>20.78</td>
</tr>
<tr>
<td>2012</td>
<td>-1.20</td>
<td>17.72</td>
<td>9.25</td>
<td>26.20</td>
</tr>
<tr>
<td>2013</td>
<td>6.20</td>
<td>17.42</td>
<td>9.56</td>
<td>35.66</td>
</tr>
<tr>
<td>2014</td>
<td>5.89</td>
<td>17.26</td>
<td>9.55</td>
<td>33.70</td>
</tr>
<tr>
<td>2015</td>
<td>-2.02</td>
<td>17.56</td>
<td>9.60</td>
<td>29.16</td>
</tr>
<tr>
<td>2016</td>
<td>-2.33</td>
<td>17.66</td>
<td>9.52</td>
<td>32.97</td>
</tr>
<tr>
<td>2017</td>
<td>5.20</td>
<td>17.75</td>
<td>11.30</td>
<td>29.16</td>
</tr>
<tr>
<td>2018</td>
<td>0.30</td>
<td>18.37</td>
<td>11.39</td>
<td>-</td>
</tr>
<tr>
<td>2019</td>
<td>5.90</td>
<td>18.54</td>
<td>11.54</td>
<td>-</td>
</tr>
<tr>
<td>2020</td>
<td>3.40</td>
<td>18.68</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2021</td>
<td>5.20</td>
<td>18.41</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2022</td>
<td>-1.00</td>
<td>18.35</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: World Development Indicators
https://data.worldbank.org/indicator

Note: ‘–’ denotes that data is unavailable (applied to the following tables, otherwise indicated).

METHOD
The Growth Identification and Facilitation Framework

This paper will employ the Growth Identification and Facilitation Framework (GIFF), a practical policy instrument that developing countries can use to assist them in identifying industries and goods in which they have a comparative advantage. Furthermore, the GIFF enables developing countries to pursue structural transformation through industrial upgrading while adhering to the principle of comparative advantage. The fundamental tenet of the GIFF is that developing nations should concentrate on what resources they do have rather than what resources they lack to unlock their latent comparative advantages.

There are six steps involved in applying the GIFF (Lin & Xu, 2016):

Step I: Selecting the appropriate target. This is very important as it involves a country identifying tradable goods and services that have been made for about twenty years or so in countries with rapid economic growth, comparable endowment structures, and a per capita GDP that is 100–300% higher than their own.

Step II: Eliminate some binding constraints. Some private local firms may have already entered spontaneously into the industries identified in Step I. Thus policymakers should prioritise those local firms by identifying the barriers to quality upgrading. Another important step to take is to identify and remove obstacles that prevent other firms from entering those industries.

Step III: Luring foreign investors. If virtually no local firms have been established to operate (do exports) in those industries, or if very few local firms have been established to operate (do exports), then foreign investors from the list of countries listed
in Step I must be sought. In addition, policymakers can also plan new firm incubation initiatives.

Step IV: Boosting up self-discoveries. Each country has its own specific unique resource endowment. As a result, a country’s endowment structure plays a significant role in determining the products it produces for the market. Furthermore, based on its endowment structure, some local firms in a country may have developed certain technologies or self-discovered industries that may not have existed 20 years ago. Along with the industries identified in Step I, the government ought to take note of the self-discoveries by private firms and promote their successful expansion into new industries.

Step V: Recognizing the special role of industrial parks. In countries with weak infrastructure and an unfavorable business environment, industrial parks are used expressly to target economic activities to attract foreign direct investment, promote economic growth, enhance exports, and accelerate industrialization.

Step VI: Offering of limited incentives. The above-mentioned pioneer firms may receive compensation from the government, for example, direct investment credits, tax breaks for a short term, and access to forex.

RESULTS AND DISCUSSIONS
Selecting Benchmarking Countries
Following the first step of the GIFF framework, Table 3, shows a list of countries that meet this benchmark. After removing countries with a slow rate of growth, the following countries were left, namely: Bangladesh, China, Rwanda, and Vietnam.

<table>
<thead>
<tr>
<th>Country Name</th>
<th>GDP per capita (constant 2015 US$)</th>
<th>Percentage to Malawi (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>554.1985</td>
<td>100</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1784.739</td>
<td>322</td>
</tr>
<tr>
<td>China</td>
<td>11560.33</td>
<td>2086</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>857.3155</td>
<td>155</td>
</tr>
<tr>
<td>Ghana</td>
<td>2040.043</td>
<td>368</td>
</tr>
<tr>
<td>India</td>
<td>2085.121</td>
<td>376</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4073.61</td>
<td>735</td>
</tr>
<tr>
<td>Rwanda</td>
<td>940.4067</td>
<td>170</td>
</tr>
<tr>
<td>Vietnam</td>
<td>3655.463</td>
<td>660</td>
</tr>
</tbody>
</table>

Source: World Development Indicators
https://data.worldbank.org/indicator

Bangladesh
Bangladesh is a small, densely populated nation in South Asia, with a population of 168 million people. Its economy is based on three pillars: agriculture, industry, and services (Manik, 2023; Rahman, 2017). Except for the year 2020 due to the COVID-19 shock, Bangladesh’s economy grew at a rate of more than 6% from 2011 to 2021 (Manik, 2023). Compared to agriculture and services, the industrial sector of Bangladesh is growing much faster. The country is renowned for specializing in labor-intensive manufacturing. The largest exporting sector to Bangladesh is ready-made clothing. Approximately $ 28 billion, or 82% of all export revenue, is generated by the textile industry each year (Hossain et al., 2018).
China

China is not a natural resource-rich country. Back in 1960, the per capita GDP of China was less than that of most African countries. In 1978, China started to open up (to foreign trade and investment), and reform its economy, by implementing free-market reforms. Since 1978, economic growth in China has been impressive (Esmail & Shili, 2017; Lin, 2012; Vučković, 2014). Its GDP growth during the 40 years (1979-2019) was the longest in human history, averaging at 9.5% annually. Over 853 million people were lifted out of poverty, representing approximately 75% of global poverty reduction (Ross, 2021). Today, China is the second largest economy after that of the United States (Koçakoğlu, 2021). China’s production structure may be suitable for imitation, given the possibility that it is about to lose its cost advantage in some of the sectors that have historically driven its growth performance. This is largely attributed to its sizable domestic market, rapid growth, and rapid ascent up the technological value-added ladder.

Rwanda

In recent years, the growth performance of Rwanda has been at its finest. A historical record was set between 1999 and 2012 with an average yearly GDP growth rate of 8%. Several African nations have seen similar growth in recent years, much of it attributable to soaring global commodity prices for minerals, oil, and other natural resources (Diao et al., 2014). However, progress in Rwanda, a country with few natural resources, has little to do with such commodity windfalls. Additionally, Rwanda is second in Africa, in terms of having a higher population density and is landlocked, making it more difficult for it to grow rapidly than many other African countries, which makes its rise more remarkable (Diao et al., 2014; Rutebuka et al., 2018). In Rwanda, agriculture still contributes 24% of the nation’s GDP. Food crops make up almost two-thirds of the value of agriculture. Rwanda has managed to boost total agricultural output greatly, due to significant yield growth (Heinen, 2022).

Vietnam

Vietnam is a developing market economy, with many important characteristics of a transition system. Historically, its economy was distinguished by a sizable traditional agricultural sector and a modest industrial base. Vietnam has experienced great economic success, since the introduction of its "doi moi" reforms, which aimed to change the economy by fostering a transition from agriculture towards industrialization (Shih & Do, 2016). The structure of the service industry evolved to reflect an increase in the share of high-quality service industries like banking, finance, travel, and insurance. Agriculture underwent a significant transition, moving from single-crop rice with low productivity and severe shortages, to agriculture that is abundant enough for both local use and export (Mai, 2013). The tourism sector has grown rapidly in recent years, due to the country’s free-market economy and a recognition of tourism as a key economic driver (Haley & Haley, 1997; Shih & Do, 2016).

Commodities These Countries Export

This section lists the top export products for these comparable nations.
Bangladesh

The top products that Bangladesh exports are; Knit Suits for women ($3.54B), Non-Knit Suits for women ($5.41B), Knit Sweaters ($6.32B), Non-Knit Suits for men ($6.68B), and Knit T-shirts ($7.06B), largely exporting to Poland ($2.94B), United Kingdom ($3.29B), Spain ($3.6B), Germany ($8.36B) and United States ($8.72B). Bangladesh was the world’s largest exporter of Textile Scraps ($123M), Textile Fibres, Including Jute ($161M), Jute Yarn ($550M), Non-Knit Men’s Shirts ($1.72B), in 2021.

China

Leading Chinese exports are; Telephones ($53.9B), Office Machine Parts ($101B), Integrated Circuits ($158B), Computers ($192B), and Broadcasting Equipment ($231B), largely exporting to Germany ($134B), South Korea ($140B), Japan ($168B), Hong Kong ($323B) and United States ($530B). In 2021, China was the largest exporter of Semiconductor Devices ($49.2B), Telephones ($53.9B), Office Machine Parts ($101B), Computers ($192B), and Broadcasting Equipment ($231B).

Rwanda

Rwanda’s top exports are; Niobium, Tantalum, Vanadium, and Zirconium Ore ($88.4M), Tea ($90.1M), Tin Ores ($99.2M), Refined Petroleum ($107M), and Gold ($368M), largely exporting to Pakistan ($33.2M), Ethiopia ($42.6M), Thailand ($78.8M), United Arab Emirates ($438M), and Democratic Republic of the Congo ($587M). Rwanda exported the most Tungsten Ore ($51.6M) in 2021.

Vietnam

The top products that Vietnam exports are; Textile Footwear ($9.79B), Office Machine Parts ($11.7B), Integrated Circuits ($18.2B), Telephones ($25.3B), and Broadcasting Equipment ($51.1B), exporting mostly to Hong Kong ($12.5B), Japan ($21.3B), South Korea ($22.6B), China ($57.8B), and United States ($99.3B). In 2021, Vietnam was the largest exporter of Cinnamon ($270M), Non-Retail Mixed Cotton Yarn ($512M), Cement ($1.91B), Fuel Wood ($2.31B), Brazil Nuts, Cashews Nuts, and Coconuts ($3.37B).

Identifying the Sectors for Growth in Malawi

In light of the analysis above, Malawi has the potential for growth in other productive sectors such as agriculture, manufacturing, and tourism. These sectors are briefly discussed below.

Agriculture employs most of the population in Malawi and also serves as a source of foreign exchange. It is Malawi’s most globally competitive sector. Therefore, it follows that agriculture will drive Malawi’s industrialization. However, the sector suffers from low agriculture productivity, light manufacturing, and limited value addition. There is an urgent need for Malawi to transform the agriculture sector through increased production and productivity. This requires large-scale investments in production. Also, value addition as this will significantly create more jobs along the value chain. Agriculture has the biggest employment multiplier impact due to its robust forward and backward linkages to other economic sectors.

Malawi has a good number of tourist attractions and they include; wildlife, cultural attractions, Lake Malawi, a freshwater body, and its biodiversity and nature (landscapes...
and natural beauty spots). However, tourism in Malawi is far from its potential. According to (Banda, 2021), tourism contributes 7.3% to national GDP. The sector continues to suffer from many challenges which include; low investments, inadequate support infrastructure, and limited air accessibility, among others.

Despite the challenges Malawi’s tourism sector faces, the sector has potential. The government can prioritize tourism, for much-needed foreign exchange earnings. In addition, diversifying the sector promotes niche market goods, especially those related to adventure, cultural tourism, and sport. Other aspects to consider in a bid to make the sector competitive include; investment in modern facilities such as amusement parks, recreational facilities, hotels, and restaurants.

The manufacturing industry in Malawi is rather small and contributes about 15% to GDP. In terms of GDP share, it comes in third behind services and agriculture. Small and medium-sized firms (SMEs) account for the bulk of manufacturing firms and manufacture food products, consumer goods, and textiles. However, a few larger firms are also active in the industry, mainly in the sugar and tobacco sectors (Mkwambisi et al., 2020).

The manufacturing sector continues to face challenges such as lack of financial access, high energy costs, poor infrastructure, and lack of technical expertise. Despite these challenges, the manufacturing sector has the potential to expand and contribute significantly to the GDP of Malawi. As part of the solution to the challenges, the government can support the private sector to invest in the manufacturing sector and boost domestic manufacturing capacity. Lastly, the need for steps to be taken to address the challenges the sector faces.

Based on the potential growth sectors identified above, the export composition of comparator countries, as well as Malawi’s imports, the following are some of the potential products Malawi can prioritize for growth and employment creation. The products include; (i) knit suits, (ii) knit sweaters, (iii) knit t-shirts, (iv) integrated circuits, (v) broadcasting equipment (vi) tea, (vii) textile footwear, (viii) fertilizers, (ix) tobacco and manufactured tobacco substitutes, (x) plastics and articles thereof, (xi) textiles, made up articles; (xii) animal or vegetable fats and oils, (xiii) soap, organic surface-active agents, (xiv) paper and paperboard, (xv) iron and steel, (xvi) chemical products, (xvii) electrical machinery and equipment, (xviii) pharmaceutical products.

Some of these products require low capital requirements, as Malawi is not a capital-abundant country. However, in cases where products require high capital requirements, or few or no domestic firms are operating in the identified sectors, it is beneficial to seek foreign direct investment (FDI). This therefore requires policy-makers to act swiftly and implement effective FDI policies. An effective FDI policy must prioritize development vision with coherence and coordination as its top priorities. Additionally, it calls for the ability to choose between various development goals and making trade-offs. FDI serves as a significant development stimulus. Policies to attract foreign investors to invest are becoming increasingly important as FDI has evolved as the most dynamic component of global resource flows to developing countries. FDI serves as a significant development stimulus since it contributes to technology spill-overs, which also supports the development of human capital, aids in integrating global trade, and boosts the growth of firms. All of these lead to increased economic growth, which is the most effective means of reducing poverty in developing countries. In addition, it is important to boost support of the self-discoveries (e.g. innovation) by private firms and promote their successful expansion into new industries.
Recognizing the special role of industrial parks

Special Economic Zones (SEZs) are protected export hubs that provide benefits including tariff discounts to manufactured exports. They also have various benefits for firms, such as an increase in industrial productivity, technology transfer, and encourage innovation. These zones have been shown to have positive economic benefits globally, such as employment creation, skills, and technology transfer. However, it is their achievement in China that attracted a lot of interest (Chiukira, 2020; Nallathiga, 2007). Also, some firms operating in the SEZs may be helped to succeed by supplying them with limited compensation from the government, for example, direct investment credits, tax breaks for the short-term, and access to forex.

The underdeveloped infrastructure of Malawi presents an opportunity for the country to establish and benefit from the transformative power of SEZs. This will improve the setting for foreign and local investment as well as private sector development. Lastly, Malawi may benefit from SEZs by accelerating its industrialization, which would result in long-term, sustainable economic growth and development.

Policy Implications

The aforementioned research findings have various policy implications. In light of this, the study suggests the following recommendations to relevant stakeholders. First, the need to support industrial development by establishing special economic zones, as a key tool for encouraging foreign direct investments, fostering economic growth, and accelerating industrialization in Malawi. Second, it is important to consider how SEZs might dynamize the surrounding industrial setting when designing and implementing SEZs policies and activities. This can enhance the performance of SEZs. Lastly, there is a need for policies that will enhance the business environment and encourage the export of goods and services with added value, especially in the sectors where Malawi has a comparative advantage.

CONCLUSION AND RECOMMENDATION

This paper aims to identify sectors in Malawi with high growth and employment potential using the framework of New structural economics. We further analyzed the sectors that determine economic growth and employment in Malawi. We noted that agriculture is the backbone of the economy, accounting for 36% of GDP. Furthermore, Bangladesh, China, Rwanda, and Vietnam were selected as benchmark countries for which Malawi can imitate their production structure as they may be in the process of losing their cost advantage in some of their industries. From the benchmark countries, it is obvious that Malawi has a comparative advantage in the manufacturing, tourism, and agriculture sectors. For Malawi to undergo structural transformation, Malawi must address the binding constraints that inhibit growth in those sectors, promote foreign and local investment in these sectors, as well as develop and strengthen the value chains. Policy implications emanating from this study include the need for policies that will enhance the business environment and encourage the export of goods and services with added value, especially in the sectors where Malawi has a comparative advantage.
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