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## Trade and Development When Exports Are Volatile: A Case Study From Malawi

Several countries in Africa, Latin America, and the Caribbean depend heavily on a limited number of cash crop exports such as tobacco, coffee, tea, cocoa, sugar, and cotton. Without a diverse export portfolio, the economies of these countries are highly vulnerable to domestic and international shocks, leading to poor economic performance and reduced U.S. agricultural export potential to these regions.

Among countries with a narrow range of exports, Malawi stands out. One cash crop, tobacco, accounts for approximately 60 percent of Malawi's total merchandise export earnings and 13 percent of its gross domestic product (GDP).

Tobacco exports are a key engine of growth for Malawi's economy. However, Malawi has found it difficult to sustain economic growth because its tobacco export revenues have not been invested in yield-increasing technologies and inputs to improve productivity. Consequently, the growth-enhancing effects of export expansion may have been largely lost. Moreover, ineffective use of export revenues leaves the country's economy unprepared for shifts in market conditions that lead to falling export revenues.

ERS research found that the relationship between Malawi's exports and GDP is asymmetric—the negative impact of falling tobacco export revenues on Malawi's GDP is almost three times greater than the positive impact of an equivalent increase in export earnings. Variability in tobacco exports, therefore, is a drag on overall economic growth. Gains in tobacco yields and improvements in marketing efficiency could help buffer Malawi's GDP from variability in export revenues. Yield growth, which would allow the agricultural sector to continue to profit even if real (adjusted for inflation) prices decline, would require improved availability and quality of resources, inputs, and human capital. Greater marketing efficiency can be achieved by reducing internal costs of transportation and distribution, allowing firms to operate profitably at smaller margins when export prices are falling.



Claudio Angelini

The empirical findings for Malawi illustrate the role of productivity growth in buffering the impacts of export variability and provide a cautionary tale for other countries with similar economic structures—inefficient uses of export revenues likely amplify the negative impacts of export volatility on a country's economy. There is substantial scope for increased marketing efficiency and agricultural productivity in developing countries, suggesting unrealized potential for sustained economic growth and imports.  $\forall$

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**This finding is drawn from . . .**

*Trade and Development When Exports Lack Diversification: A Case Study from Malawi*, by Suresh Chand Persaud and Birgit Gisela Saager Meade, ERR-77, USDA, Economic Research Service, July 2009, available at: [www.ers.usda.gov/publications/err77/](http://www.ers.usda.gov/publications/err77/)