THIS WEEK IN THE ECONOMY

A weekly update of economic developments taking place in Malawi and around the world from your trusted Association of Economists.

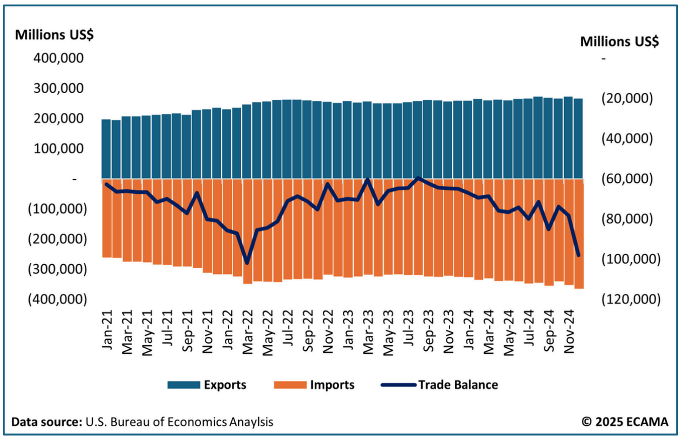
07 - 11 APRIL 2025

Tariffs Explainer: What Are They, and Should Malawi Be Concerned?

Background

On April 2, 2025, the White House released an executive order to "rebalance global trade flows." The United States (U.S.) claims it does not derive maximum benefit from trade agreements under the World Trade Organization (WTO) and with other trade partners, as it imposes some of the world's lowest tariffs yet some of its trade partners impose much higher tariffs. For instance, while the U.S. imposes a 2.5% tariff on passenger vehicle imports, the European Union imposes a 10% tariff, and India imposes up to 70% tariffs on the same products. This is happening at a point when the U.S. is experiencing a stagnant manufacturing sector with diminishing capacity. In contrast, its partners are showing notable growth. The country has also been recording trade deficits **(see Figure 1)**, with its goods trade deficit with China estimated at minus US$295.4 billion in 2024, 5.8% up from 2023.

Figure 1: *U.S. goods and services trade deficit*



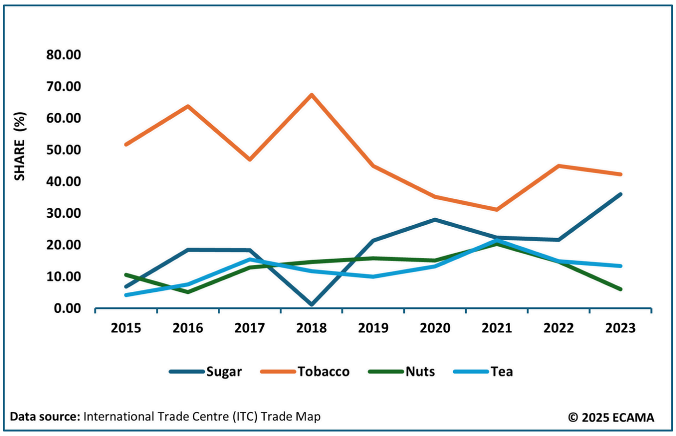
To address this, the U.S. has introduced a ***universal 10% tariff*** on imports from the rest of the world. In addition, countries deemed to have have some form of "cheating," such as currency manipulation and other non-tariff barriers, will face even higher ***reciprocal*** tariffs.

This begs the question: *What exactly is a tariff?* A tariff is a tax charged on goods bought from other countries. There are two key imperatives for tariffs: to protect local industries' operations and to raise government revenue. Regarding how tariffs are applied, an ad valorem tariff is levied as a fixed percentage of the value of the traded commodity. Thus, a 25% ad valorem tariff on imported milk means the government collects MK500,000.00 if milk worth MK2,000,000.00 is imported. Tariffs can also be levied as a fixed charge per unit of the traded commodity, e.g., MK50 on every 500 ml packet of imported milk from Zambia. If 1000 packets are imported, the government collects MK50,000.00 in tariff revenue.

Malawi and U.S. trade situation

Malawi has been subjected to a reciprocal tariff of 17%, meaning its exports to the U.S. will now face a total import tariff of 27%. The country's top exports to the U.S. include tobacco, sugar, tea, and nuts. Malawi's total export value to the U.S. was estimated at US$45.23 million in 2023. **Figure 2** shows the export shares for the top export products, with tobacco commanding a lion's share.

Figure 2: *Trends in Malawi's top U.S. exports*



Should Malawi be concerned about the tariffs?

Export market dependence

Table 1 illustrates the importance of the U.S. market for Malawi's exports using data from the International Trade Centre (ITC) Trade Map Database.

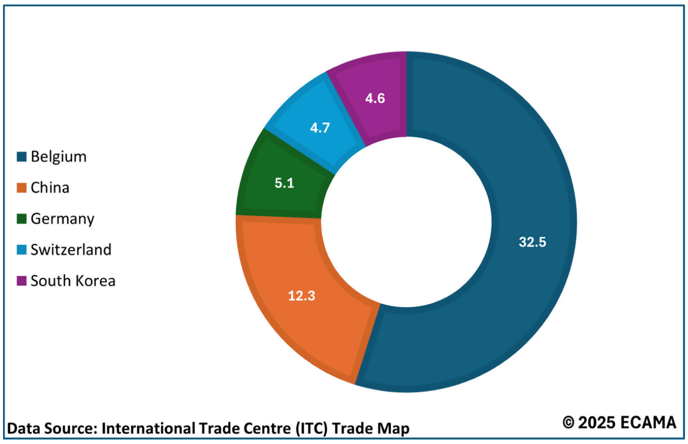
Table 1: *Export shares for Malawi's top exports to the U.S. vs. the world*

Year	Sugar	Tobacco	Nuts	Tea
2015	3.50	4.70	26.23	3.13
2016	11.09	6.79	18.94	6.55
2017	17.37	2.90	28.56	7.09
2018	1.57	6.57	26.10	6.45
2019	12.51	4.48	25.40	6.24
2020	13.27	3.08	25.35	6.43
2021	12.38	2.87	31.21	12.27
2022	44.86	5.20	27.86	9.24
2023	35.45	3.94	16.53	8.69
AVERAGE	**16.89**	**4.50**	**25.13**	**7.34**

The export shares compare Malawi's export earnings from the U.S. relative to the whole world for the top four commodities. The analysis shows that sugar and nuts markets are more critical for Malawi than tobacco and tea. This observation implies that farmers involved in the production of nuts would be the most exposed to the challenges associated with the tariffs, i.e., risking both short—and long-term losses as they seek alternative markets.

The analysis further shows that although tobacco accounts for a more significant portion of Malawi's export earnings from the U.S., about 95% of Malawi's export revenues originate from the rest of the world. **Figure 3** shows that the U.S. is not among Malawi's top five export destinations for tobacco.

Figure 3: *Top importing countries for Malawi's tobacco in 2023 (% share)*



Export competitiveness

Malawi could lose the competitiveness of some of its exports to the U.S. if other countries react by lowering their tariffs on U.S. goods and services. For instance, Zimbabwe, one of the top tobacco producers in Africa, is contemplating lifting tariffs on U.S. goods to boost American imports in Zimbabwe. As a result, Malawi may lose its competitiveness in the U.S. tobacco market if its tobacco prices are higher than those of its competitors.

Export activity reduction

Malawi's exports to the U.S. averaged US$45.8 million from 2021 to 2023, accounting for 4.5% of the country's total export revenue. For illustrative purposes, if U.S. imports from Malawi were to decrease by 20% due to tariffs, this could lower Malawi's export earnings by less than 1%, which could still impact the country's economy.

Policy implications

1. *The government should collaborate with farmers in the affected value chains to diversify export markets and leverage opportunities presented by regional trading blocs such as the African Continental Free Trade Area (AfCFTA).*
2. *Increasing value addition to enhance the quality and appeal of its exports remains critical for Malawi to mitigate any potential adverse effects.*