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BEYOND TOBACCO

Navigating the Path to a Stronger Foreign Exchange Reserve Position

KEY MESSAGES

- Malawi's 2025 export value was 10% lower than in 2021, with tobacco accounting for 55% of total exports over the past five years.
- Total Foreign Exchange reserves have been volatile over time, falling from US$675.59 million in December 2023 to US$511.80 million in September 2025, before going up to US$616.30 million by June 2026.
- Malawi has a sizeable, untapped export potential in legumes and dried shelled pulses, soya oilcake, and sugarcane, although sugarcane's comparative advantage has been declining.
- Competitive strengths differ by market: While COMESA favours tobacco, groundnuts, sacks, and fibreboard, SADC favours macadamia, rubber, black tea, and fibreboard, underscoring the fact that diversification strategy must be market-specific.
- Tobacco's dominance is reinforced by decades of dedicated market institutions and policy support. Comparable systems are needed for alternative products to compete.

Malawi's Foreign Exchange Position Remains Fragile

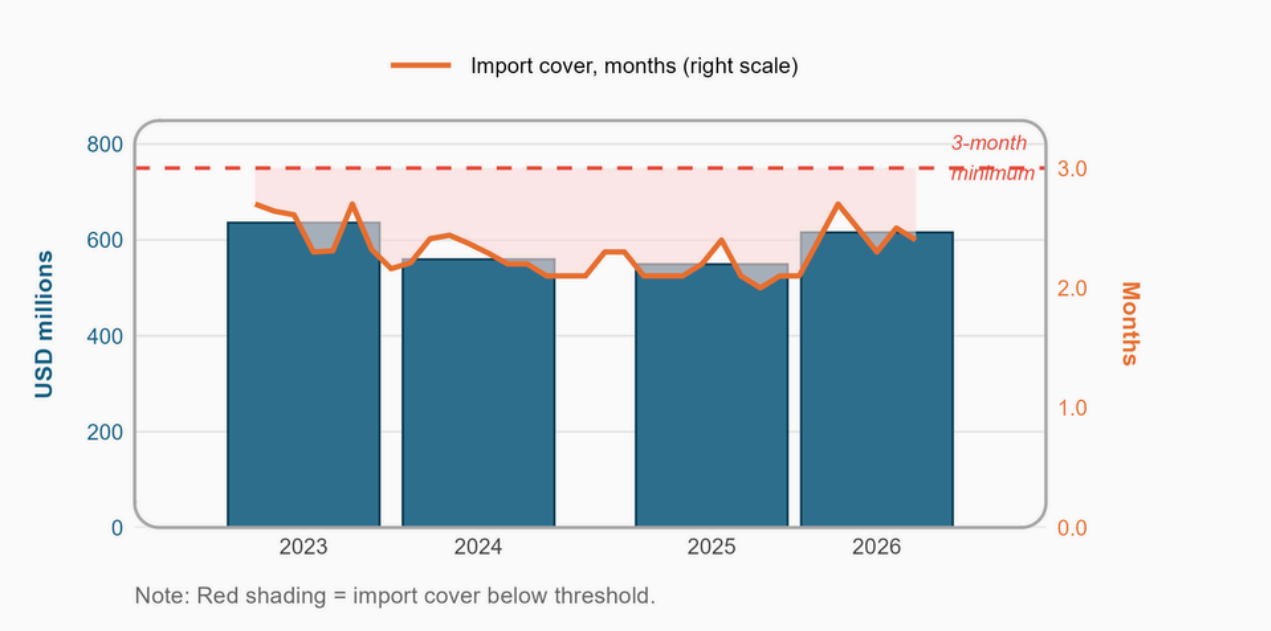
Malawi's foreign exchange reserves have remained volatile over time. Total foreign exchange reserves stood at US$675.59 million in December 2023, before falling sharply to US$530.90 million by December 2024. The downward trend continued through much of 2025, with reserves reaching as low as US$511.80 million in September 2025. A modest recovery is noted in 2026, with reserves rising to US$616.30 million by June 2026. Despite this improvement, reserves remain below their December 2023 level, and the economy has remained vulnerable to shortages of essential imports, including fuel and fertiliser.

This pressure is, at its core, an export problem. Weak export earnings have been an important contributor to pressure on foreign exchange reserves. Malawi's merchandise export value in 2025 was 10% lower than in 2021, and the country earns foreign currency from an unusually narrow base. Tobacco alone has accounted for 55% of total exports over the last five years, implying that Malawi's capacity to earn foreign exchange rises and falls largely with the fortunes of a single product. This concentration would be a manageable risk if tobacco's global market were stable and

expanding. Instead, global production is expected to decline from 6.4 million metric tons in 2023 to 6.3 million metric tons by 2028, reflecting a gradual shift away from traditional tobacco products towards Reduced Risk Products such as heated tobacco and related alternatives, in which Malawi has limited participation. Further, the World Health Organisation's (WHO) 2025 report revealed that global tobacco use had declined significantly, with the number of users dropping from 1.38 billion in 2000 to 1.2 billion in 2024. WHO highlights that the share of adults using tobacco has dropped 27% since 2010. This implies that the product that accounts for most of the country's foreign exchange earnings is also the one most exposed to a shrinking traditional market.

The implication of this is that the foreign exchange challenge cannot be resolved through reserve management alone. The solution lies in reducing Malawi's exposure to tobacco specifically and building export earnings from other, commercially viable products. The question this edition addresses, therefore, is not whether Malawi should diversify away from tobacco, but rather, the products it should prioritise and what it will take to convert the products' potential into the actual foreign exchange earnings.

Figure 1. Trends in Malawi's total foreign exchange reserves



Source: ECAMA, based on data from the Reserve Bank of Malawi

Impact on Households and Firms

Malawi's limited foreign exchange reserves place severe strain on both private firms and households. According to the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) 2025 Malawi Annual Economic and Business Review, 51.9% of businesses reported operating at a capacity utilisation of below 50%, largely due to foreign exchange scarcity. Additionally, difficulty accessing foreign currency for raw materials, spare parts, and machinery reduces operational efficiency, raises production costs, and contributes to job losses. Fuel shortages, as a result of foreign exchange scarcity, also disrupt logistics, increase transport costs, and weaken the competitiveness of Malawian businesses in both domestic and export markets. For households, the pressure is felt through higher prices for imported essentials such as fuel, medicines, and synthetic fertilisers. As imported inflation feeds into the Consumer Price Index, households face rising costs of living, worsening food insecurity, and increased pressure on already limited incomes. Sustained export diversification would ease this strain over time by widening the sources of foreign currency available to fund these imports, though the relief would build gradually rather than immediately.

Why Malawi Remains Over-reliant on Tobacco

Malawi's dependence on tobacco is rooted in history, institutions, and market incentives. Since the colonial period, production systems, rural infrastructure, financing arrangements, and export channels have been organised around tobacco. Over time, this created a crop with a predictable market, established regulations, and a relatively well-developed value chain, while many alternative export crops remained less organised and more difficult for farmers and firms to scale up.

Key Factors Contributing to Overreliance on Tobacco

- **Historical production structures**. Colonial-era estate agriculture helped establish tobacco as a central commercial crop. This early concentration shaped rural production patterns and created a path dependency that has been difficult to reverse.
- **Organised and predictable markets**. Tobacco benefits from auction floors, established buyers, and international marketing channels. By contrast, crops such as macadamia, cotton, sugar, soybeans, and pulses often face weaker aggregation systems, less predictable pricing, and fewer organised market outlets, making them riskier for producers.
- **Established value-chain infrastructure**. Decades of investment in grading, regulation, logistics, farmer networks, and buyer relationships have made tobacco easier to commercialise than many alternative products. Without similar support systems, diversification crops struggle to attract farmers, processors, and exporters at scale.

Beyond these institutional and infrastructural factors, it is also worth acknowledging the private incentive at play: for an individual farmer, shifting land and labour away from a crop with a guaranteed buyer and known price toward a less organised alternative carries real short-term income risk, even where the long-term national case for diversification is strong. Policy support for alternatives needs to address this transition risk directly, not only the end-state market gap.

Tobacco's Institutional and Policy Advantage

Policy implementation has also reinforced tobacco's dominance. While Malawi has broader agricultural legislation, tobacco has benefited from more specific legal and institutional support than many alternative export crops. This has helped create clearer rules, stronger coordination, and more visible promotion for tobacco than for other products with export potential.
The Tobacco Industry Act provides an institutional framework for regulating and promoting the crop, including the role of the Tobacco Commission. Since tobacco is also treated as a special crop, it receives policy attention that has helped sustain production, marketing, and export systems over time.

The implication is that diversification will require more than identifying promising products. It will require building comparable market institutions for alternative crops, including reliable buyers, quality-control systems, storage, aggregation, financing, extension support, and export promotion. Without these systems, farmers and firms will continue to favour tobacco because it offers a clearer route from production to market.

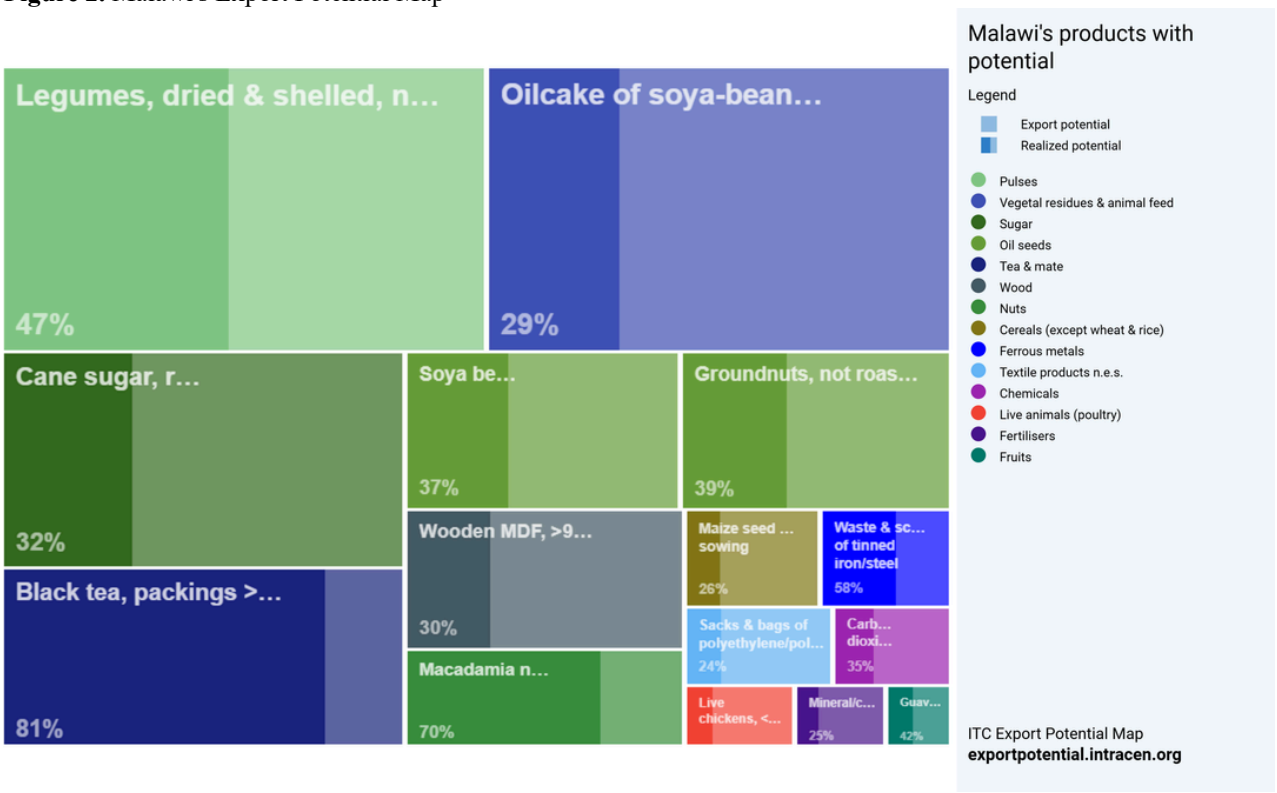
Export Potential and Revealed Comparative Advantage

Beyond tobacco, other products in Malawi's top export basket, including tea, sugar, pulses, and oilseeds, contribute less consistently, limiting the country's ability to generate foreign exchange from multiple sources. Recent evidence points to constraints that hold back diversification,

including climate-related production risks, fixed land-use patterns, weak market infrastructure, export bans, uneven quality-control systems, and unpredictable domestic trade policies affecting products such as soybeans and groundnuts.

Even within these constraints, Malawi has several products with sizeable, untapped export potential. Figure 2 indicates that legumes, dried shelled pulses, soya oilcake, and sugarcane could all contribute more to export earnings with improvements in production capacity, quality standards, aggregation, and market access. Legumes and dried shelled pulses appear to have more than half of their potential market still untapped. Soya oilcake is estimated to realise only 29% of its potential, leaving a 71% gap, while sugarcane has realised an estimated 32% of its potential, leaving a 68% gap still to close. These products therefore provide a practical starting point for diversification because they are already linked to areas where Malawi has productive capacity and market opportunities beyond tobacco.

Figure 2. Malawi's Export Potential Map



Source: International Trade Centre

Export potential alone is not enough. Malawi also needs to prioritise products where it is already relatively competitive. Revealed comparative advantage (RCA) helps identify products by comparing a product's share of Malawi's exports with its share of world exports. When a product has an RCA greater than one, it suggests that Malawi is a relatively competitive exporter of that product compared with the global average. The RCA results show both strength and vulnerability. Malawi continues to show revealed comparative advantage in several traditional exports, including tobacco, sugar, coffee, tea, maté, spices, macadamia, oilcake, groundnuts, residues, and some agro-processing by-products. However, the competitiveness of some products has declined over time, including raw cane sugar, dried pigeon peas, dried shelled peas, and groundnuts (shelled), each flagged as “Declining” in Table 1. This is a notable tension: some of the same products identified in Figure 2 as having strong untapped demand-side potential, such as sugarcane and dried shelled pulses, are simultaneously losing ground in terms of competitiveness. This suggests that diversification should not simply expand any alternative product; it should focus on products with sufficient historical competitiveness to sustain export growth, or explicitly budget for rebuilding competitiveness where it has eroded. This reinforces the idea that products should combine strong

export potential, a demonstrated comparative advantage, and realistic opportunities for access to regional or global markets.

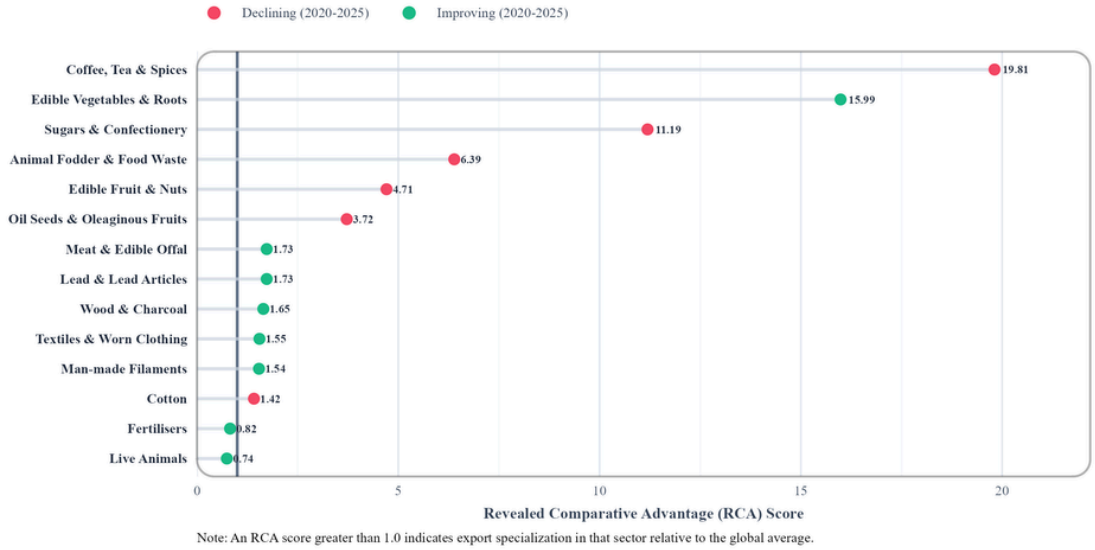
Table 1: Top 20 Products with Revealed Comparative Advantage (Include the measure and its interpretation)

Product	2020	2021	2022	2023	2024	2025	Average	Trend
Black tea	354.62	322.68	404.69	338.76	351.66	456.32	368.08	Improving
Dried pigeon peas	237.16	1,538.06	2,317.37	1,088.97	1,073.74	869.61	1,233.06	Declining
Dried shelled peas	114.69	153.72	78.71	66.62	67.39	86.63	111.75	Declining
Frozen poultry cuts	0.00	0.00	1.69	6.27	13.72	10.97	4.67	Improving
Groundnuts (shelled)	197.63	191.69	490.06	251.18	143.93	73.88	227.42	Declining
Leguminous vegetables	114.88	187.63	126.38	296.83	581.35	357.01	261.92	Improving
Macadamia nuts (shelled)	629.10	597.88	743.68	506.04	471.75	884.32	644.09	Improving
Macadamia nuts in shell	57.68	206.36	380.81	409.01	359.53	640.75	295.77	Improving
MDF wood	21.72	21.77	26.91	22.45	92.85	24.14	32.68	Improving
Natural rubber	100.25	74.97	98.66	104.27	80.86	64.28	93.80	Declining
NPK fertiliser	0.02	5.96	7.08	4.38	4.22	7.22	4.13	Improving
Oilcake	18.19	12.90	17.76	29.21	23.10	15.14	18.77	Improving
Polyester firms and sheets	0.00	0.00	0.00	43.29	161.57	268.39	67.61	Improving
Polyethene sacks and bags	46.66	37.06	26.55	19.28	32.00	26.75	31.43	Declining
Raw cane sugar	117.29	105.99	27.14	43.53	9.23	34.26	69.66	Declining

Sesamum seeds	15.48	20.70	24.43	26.46	33.86	18.42	21.56	Improving
Tobacco (stemmed or stripped)	881.79	882.59	897.60	869.06	920.65	984.99	911.33	Improving
Tobacco (unstemmed or unstripped)	440.39	559.99	490.89	148.14	91.25	210.06	319.53	Declining
Tobacco refuse	1,400.9	863.50	162.01	397.69	245.10	463.50	553.67	Improving
Woven synthetic fabrics	0.00	3.93	0.00	16.86	27.32	54.27	14.63	Improving

Source: ECAMA computations based on ITC Trade Map data

Figure 3. Malawi's Revealed Comparative Advantage Map

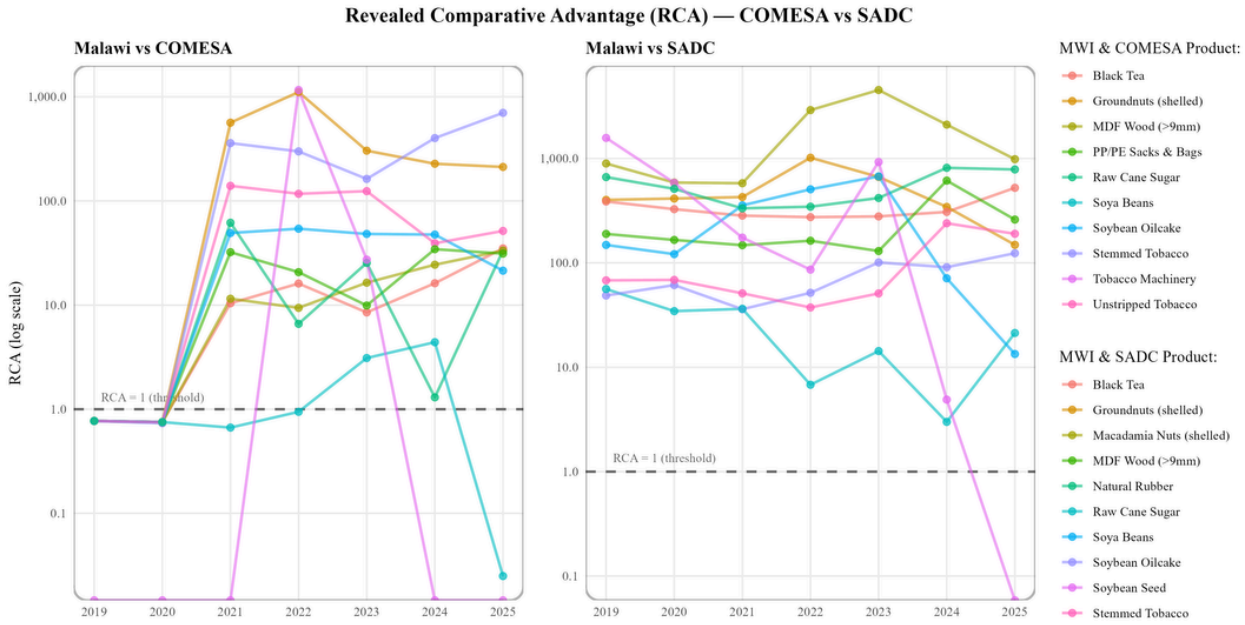


Source: ECAMA computations based on ITC Trade Map data (2020–2025)

COMESA and the SADC Region

Regional analysis is useful because the products in which Malawi is competitive globally may not be the same products with the strongest opportunities in nearby markets. Looking at COMESA and SADC separately helps identify where specific products can be targeted more deliberately and where market-access efforts can yield quicker gains. Regional markets offer an important pathway to turning comparative advantage into higher targeted export earnings and diversification, but Malawi's opportunities vary across markets. Competitive products differ by market. In COMESA, Malawi's strongest RCA products include tobacco, groundnuts, sacks, and fibreboard, indicating areas where existing competitiveness can be deepened. In SADC, however, the strongest opportunities appear to be more diversified, including macadamia, rubber, black tea, and fibreboard. This variation suggests that diversification strategy should be market-specific rather than generic. Malawi can increase export gains by matching priority products to the regional markets where they are already competitive, and by addressing product- and market-specific access constraints, thereby making regional markets a more deliberate and effective source of foreign exchange earnings.

Figure 4. Revealed Comparative Advantage (RCA) – COMESA vs SADC



Source: ECAMA computations based on ITC Trade Map data, 2019–2025

Building Export Readiness: Value Addition and Certification

Beyond identification of the products to be prioritised, Malawi's ability to convert export potential into foreign exchange earnings also depends on how much value it adds to the products before export. Much of Malawi's current export base is composed of products that leave the country as raw or minimally processed commodities — raw cane sugar rather than refined sugar, unprocessed pulses rather than packaged or processed legumes — which limits the foreign exchange earned per unit exported and leaves producers exposed to raw-commodity price volatility. Agro-processing capacity, quality certification, and storage and logistics infrastructure remain underdeveloped relative to the scale of Malawi's agricultural output and meeting the certification and packaging standards required by regional and international buyers remains a persistent barrier for exporters seeking to move up the value chain. Strengthening these capabilities would allow Malawi to capture more value from the same volume of exports, complementing the market-development and institutional priorities set out below.

Policy Priorities for Export Diversification

- Develop organised markets for products where Malawi already shows export potential and revealed comparative advantage. Priority should go to products with strong potential and demonstrated competitiveness. This requires Government and private-sector actors to improve market coordination, quality standards, aggregation systems, market information, storage, and targeted incentives for producers and processors.
- Use regional trade arrangements more strategically. Malawi should leverage AfCFTA, COMESA, and SADC by matching products to regional markets where they are already most competitive, while reducing non-tariff barriers, improving trade facilitation, and supporting exporters in meeting market-specific requirements.
- Reduce dependence on tobacco by supporting commercially viable alternatives. Diversification efforts should focus on products with proven export potential, such as legumes, soya oilcake, sugarcane, macadamia, and tea, as well as selected products suited to regional markets, rather than spreading resources too thinly across many low-potential sectors.

- Invest in value addition and export readiness. Malawi can earn more foreign exchange by moving beyond raw commodity exports, strengthening agro-processing, improving product certification, expanding storage and logistics infrastructure, and helping firms meet international buyer standards.

In conclusion, Malawi's foreign exchange challenge is closely tied to the structure of its export base. Tobacco will remain important in the short term, but the country's long-term resilience depends on building competitive, market-oriented alternatives. Products such as legumes, oilcake of soya, sugarcane, macadamia, and tea offer a practical starting point, though several of these will also need renewed investment in competitiveness, not demand potential alone. The key policy question is not whether Malawi should diversify, but how quickly it can build the market systems, quality standards, value addition, and trade facilitation needed to make diversification commercially viable.

Achieving Export Diversification: A Policy Checklist

Achieving meaningful export diversification requires coordinated progress on multiple fronts. The table below summarises the conditions that must be met and the risks associated with each failing to materialise.

Issue	What Must Happen	Risk If It Does Not Materialise
Export Concentration	Reduce reliance on tobacco by scaling exports of legumes, soya oilcake, sugarcane, and macadamia.	Reserve pressure persists, and foreign exchange shortages continue to disrupt firms and households.
Product Competitiveness	Rebuild revealed comparative advantage in products where it is declining (sugarcane, groundnuts, dried peas) alongside expanding market potential.	Diversification targets products that are not commercially viable.
Regional Market Access	Match priority products to the COMESA and SADC markets where they are strongest and reduce non-tariff barriers.	Regional trade gains remain unrealised.
Market Institutions	Build buyer networks, quality-control systems, financing, and extension support comparable to those for tobacco.	Farmers and firms continue to default to tobacco.
Value Addition	Expand agro-processing, certification, and storage and logistics infrastructure.	Malawi continues to rely on low-value raw commodity exports.

About this Brief

This brief was prepared by the Economics Association of Malawi (ECAMA) Secretariat. For any inquiries or feedback, kindly contact us through secretariat@ecamamw.com.