

The effects of pricing and marketing liberalisation policy on the tobacco industry in Malawi. A partial equilibrium analysis

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INTRODUCTION

Malawi is one of the few countries that have been undertaking structural adjustment programs under the guidance of the World Bank and the International Monetary Fund since the mid 1980's. These programs have mainly consisted of stabilisation policies, structural and supply side policies intended at redressing some of the imbalances in the economy. It is not clear to what extent these policy changes have been a success or not. In Malawi, tobacco is the major foreign exchange earner. Malawi alone supplies half of the world demand for dark fired tobacco. Revenues generated by the export of tobacco leaf accounts for 15% of the country's Gross Domestic Product. Overall, the tobacco industry provides employment to nearly 47% of the total labour force in Malawi. It is with this in mind that the paper intends to analyse the effects of pricing and marketing liberalisation policy on the tobacco industry in Malawi.

MATERIALS AND METHODS

An empirical supply and demand analysis will be used to analyse the effects of policy changes in the tobacco industry in Malawi. The approach will be based on applied welfare economics. An attempt will be made to analyse policy through a vertically related market system of tobacco production supply using the fixed proportions model. The structural characteristics of the Malawi tobacco industry are going to be described through the review of previous research on market structure in the tobacco industry and analysis of data on market concentration. Attempts will be made to quantify the benefits and costs of such policy changes to the different stakeholders both on the domestic market as well as the international market.

EXPECTED RESULTS

It is expected that as a result of the liberalisation policy of the pricing and marketing of tobacco, tobacco production is going to increase and as a result of the perceived competition, prices received by growers are going to rise. It is also expected that the revenues accruing to government through increased export earnings will also rise. It is also perceived that as a result of the removal of the restrictions on the growing of tobacco more smallholders will be able to grow the crop and therefore be able to benefit from the competitive prices offered on the Auction floors. The liberalisation is also expected to generate more employment in the tobacco industry as well as tobacco related industries.

DISCUSSION AND CONCLUSIONS

The paper will set out to identify both the positive and negative effects that changes in the pricing and marketing liberalisation policy have had on the tobacco industry in Malawi. The paper will also try to identify the bottlenecks in the agriculture sector.

The focus of the discussion will be on the identification of economic rents and their distribution amongst major players as well as the implications on the tobacco industry in Malawi. On the

basis of this, it is hoped that the results will assist Government in making better and well-informed policy decisions.

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