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Randization of Malawian Economy through South African Diaspora could be the rescue of Malawian forex shortage

By

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Abstract

There is a long established history of migration of Malawians to South Africa to look for jobs and other economic opportunities dating back to precolonial era. The remittances from South Africa have been quite substantial and have uplifted livelihood of thousands of Malawians. The said remittances currently accounts to more than eighty percent of the annual inflows in that category yet there appears to be no concrete strategy to enhance the trade between Malawi and South Africa on the strength of those revenue streams in areas such as importation of official government vehicles, durable and original products, arrange for structured and trade finance based on the needs of Malawi while promoting indigenous traders to provide more goods and services to Government of Malawi. Malawi can be freed of USD obsession.

Type of Paper: Conceptual Paper

Key words: South; Malawi; Africa; Rand; Remittances

1.0 Introduction

Malawians have been trekking down to South Africa to look for job opportunities to assist their families from the days of predating precolonial period as noted by Banda (2017):

[… The history of labour migration from Malawi to South Africa can be categorized into two clear-cut periods: the old migration period and the new migration period. The old migration period existed between the 1880s and 1980s. During this period, labour migration took two forms: formal or contract migration and informal migration, locally referred to as selufu(from self-migration). While selufu existed throughout the old migration period, formal migration only took place from 1903 onwards. The South African Chamber of Mines, a body responsible for mine management, established agencies to mastermind the process of labour recruitment on its behalf. The Native Recruitment Corporation (NRC) was in charge over local labour recruitment whereas the Witwatersrand Native Labour Association (WNLA) popularly known as Wenela recruited foreign labour from countries as far as Malawi (then Nyasaland). …].

Dinkelman et al (2017:6) noted that Malawi was only one of several southern African countries experiencing high levels and large fluctuations in mine migration to South Africa prior to 1990.

Nyirongo (2019) noted that Malawian migrants especially from Mangochi District export clothing and electronic items to Malawi but a majority of them work as labourers in homes which otherwise local citizens do not wish to do in view of the apartheid legacy and thus not competing for jobs. It can therefore be construed that more Malawians are now migrating to South Africa in disjointed fashion and without securing a job upfront which can be a signal of desperation especially amongst the youth as Nyirongo (2019) noted that most of them do not have work permits.

2.0 Diaspora initiatives in Malawi

Diaspora initiatives are still are at an infant stage. Nonetheless, significant progress has been made to recognise the role of remittances. Kampanje (2012) earlier proposed the following:

[3.7 Introduce US$ Government Bonds for Malawians abroad

GOM can encourage Malawians living abroad to invest in Malawi through purchase of long-terms bonds denominated in US$ to preserve their investment and effectively hedge against rising inflation and probable adverse foreign currency exchange rate risk in Malawi. The bonds would also eliminate the cumbersome technicalities of maintain a Foreign Currency Denominated Accounts. Much can be learnt from India where the Non-Resident Indians have chance to purchase bonds issued by reserve Bank of India or Mutual Funds for minimum period of one year at attractive interest rates, the minimum invest value is US$100.00 and these products are only available to Indians residing abroad – eHow.com web page (2012) – (please refer to the reference for actual address of the articles)

The bonds could have conditions that they can only be redeemed in Malawi thus encouraging bondholders to utilise the proceeds thereof in Malawi. Source of financing maturing bonds could be issuance of new bonds or anticipated export proceeds planned well before the maturity date.].

Reserve Bank of Malawi has a dedicated diaspora initiative and it is available on its website encouraging commercial banks to develop products targeting the diaspora. Reserve Bank of Malawi (2022) stipulates that diaspora can invest in treasury bills, treasury notes, money transfer business operations as well as foreign exchange bureau business by making appropriate applications to the central bank. Pipeline projects include establishing diaspora bonds to finance public expenditure, streamlining money transfer operators functions to increase efficiencies and above all explore ways of investing in the Export Development Fund, a wholly owned subsidiary of Reserve Bank of Malawi financing exporters.

3.0 Remittances from Republic of South Africa

Dinkelman et al (2017:10) noted the tangible benefits of migrant miners and their communities from South African remittances as follows:

[Mine work was significantly more lucrative than wage-earning opportunities at home. Workers could earn at least 2.5 times more on the mines per year, relative to working for a wage on an agricultural estate in Malawi. Most of this money did return to Malawi because migrants were required by contract to save up to 60% of their earnings and receive this as deferred pay upon repatriation. These compulsory remittances, or forced savings, were the basis of a miner's ability to accumulate capital for use back in rural sending regions.].

Cedar Capital Research (2019) indicated that Malawi's inward remittances were USD186 million in 2018 having quadrupled from USD38 million in 2017. Nyondo (2019) stipulated that 83 percent of the remittances for 2018 were from Republic of South Africa which was about USD154.4 million but the actual remittances were much higher as more cash or other goods were sent to Malawi through informal means by migrants without valid papers. Nyondo (2019) further stipulated that the remittances for people especially of migrants from Mangochi are meant to cover for basic necessities of immediate family members, housing development, medical costs and school fees. Sabola (2021) stated that remittances were USD265.7 million and USD214.1 million in 2019 and 2020 respectively with drop in 2020 attributed to Covid 19 Global Pandemic. Sabola (2021) further stated that the remittances for nine months in 2021 (between January and September) were USD217 million representing 55 percent jump from corresponding previous period and were about 2.4 percent of the GDP or 10 percent of the total imports but all in all, remittances from South Africa were the largest chunk between 2019 and 2021.

4.0 Policy issues on South African remittances

4.1 Cost of remittances

Nyondo (2019) stated that most remittances from South Africa were through Hello Paisa or Mukuru which are online money transfer providers with fees about 10 percent. It can be argued that well over USD100 million was lost in remittances from South Africa between 2017 and 2021 in form of money transfer fees. This is quite material. Further silent losses might be incurred on the exchange rate movement between the South African Rand (ZAR) and United States Dollar (USD)

Government of Malawi through its South African Embassy could reduce the cost of remittances if funds could be deposited in designated bank accounts in South Africa in Rand Denominated Accounts. The Malawian beneficiaries could receive more local currency equivalent without charges and therefore uplift their lives while the country could track the remittances accurately to make well informed decisions. The money transfers firms are not Malawian companies and therefore benefit other countries than Malawi itself.

4.2 Can ZAR be the Presentation Currency?

Malawi has for a long time undermined the probable long-term benefits of embracing the South African Rand (ZAR) by preferring the United States Dollar. Malawi has substantial trade volumes with South Africa but it is surprising that very few business people seek ZAR when invoices are in the local currency of South Africa. This in part is caused by local banks which appear to have less preference for the ZAR in view of the lower mark-up and other investors from Asia or other continents looking for USD at whatever price they can be quoted as they also appear to quote their goods and services in USD and translated to Malawi Kwacha. Malawi's economy and its local citizens are the biggest losers because more expensive goods and services are sourced from countries which prefer the USD.

4.2.1 Importation of motor vehicles for government

South Africa has a meaningful industrial base for motor vehicle manufacturing plants for reputable brands such as Toyota, Ford, Peugeot Citroen, BMW, Mercedes Benz and other reputable motor vehicle brands which can be purchased in South African Rand and benefit from SADC Trade Protocols as well as other free trade agreements. Malawi would have saved substantial forex by having South African dealers guaranteed exported quantities of vehicles per annum to Malawi for all government official business. Both countries can greatly benefit as flexible financing schemes could be devised so that all forex might not be required upfront.

4.2.2 Guaranteed quality of products

Malawi imports substandard and fake products especially in hardware materials (especially building materials and accessories), motor vehicle spare parts, kitchenware, cloth and clothes. While the consumers might have perceived savings when compared to other products, the short-time replacement requirement means more money spent on frequent basis and therefore expensive in the long-run and at the same time drain Malawi's precious forex reserves in multiple importation but very often done through inflated import bills to illegally externalise forex.

South Africa has one of the best quality control systems in the world where fake and substandard products have no room in the official market. Malawi can benefit greatly by enhancing its trade relationship with South Africa by opting to buy durable products in South African Rand and eliminate inferior products in Malawi.

4.2.3 Reciprocity through increased exports

Malawi can export more products to South Africa if it can commit to buy even more goods and services from the Republic of South Africa especially where indigenous traders are given necessary support in terms of structured trade and financing as well as the accurate information. Nyirongo (2019) noted that Malawian migrants in South Africa are increasingly demanding foods from Malawi such as small dried fish which is otherwise considered not worth export material.

4.2.4 Diaspora Funeral Cover and life assurance

Malawi should consider establishing that product in South Africa in conjunction with local service providers there to provide funeral and life assurance services to lessen the burden of relatives in times of death especially where repatriation of the body is required. Government of Malawi has at times been forced to assist where there has been a need and waste forex on social services. The members of the South African Diaspora can run funds in collaboration with formal government channels and invest in South Africa for the overall benefit of Malawi as there could be possibility of including those funds in Malawi's forex positions.

5.0 Conclusion and recommendations

There is a plethora of huge potential benefits which Malawi could realise if it could realign its economic activities by prioritising to buy more goods from South Africa designated in South Africa Rand from a fellow African country with undoubted quality standards and eliminate fake and very substandard products which are flooding the country's markets. Importation of brand new motor vehicles for official government functions could be prioritised to those manufactured on the African continent and giving the locals the chance to participate in the supply process. The source of forex for those imports from South Africa could be the remittances from

Malawian migrants which could lead to cutting down costs of money transfers by opening up banks accounts in the Republic of South Africa for the purposes collecting funds which beneficiaries in Malawi would receive with the least charges as much as possible.

It is time to recognise the enormous contributions which the Malawian migrants based in South Africa make to Malawian economy as country appears to focus much on the diaspora community in Europe and United States which are yet to connect actively with beneficiaries in Malawi because distance somehow reduces the active communication and hence meagre flow of money into Malawi.

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