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From Colonization to Globalization: A history of state capture by the tobacco industry in Malawi

Julia Smith¹, Kelley Lee²

¹Faculty of Health Sciences, Blusson Hall, Room 11802, Simon Fraser University, 8888 University Drive, Burnaby, BC, V5A 1S6, jhs6@sfu.ca Julia Smith, PhD, is a Research Fellow in the Faculty of Health Sciences at Simon Fraser University.

²Faculty of Health Sciences, Blusson Hall, Room 11802, Simon Fraser University, 8888 University Drive, Burnaby, BC, V5A 1S6, Kelley_lee@sfu.ca Kelley Lee is a Professor and Canadian Research Chair in the Faculty of Health Sciences at Simon Fraser University.

Abstract

Malawi, the world's most tobacco dependent country, has long defended the tobacco industry as essential to its economy. The impoverished living conditions of tobacco farmers, however, raise questions about the true benefits accruing to the country. While the government and industry often blame public health advocates for declining leaf prices, and thus lower returns to farmers, this article scrutinises these claims from a historical perspective. It argues that a context of state capture has characterised Malawi's tobacco industry, originating with colonisation and evolving since to become increasingly entrenched. The analysis is divided into four periods: colonial (1890s-1964); national (1964–1981); liberalisation (1981–2004) and accelerated globalisation (2004 to present). Each period demonstrates how industry interests influenced government institutions and policies in ways that increased dependence on a crop that only benefits a minority of Malawians. Today, a transnational elite prospers at the expense of local growers.

Keywords

Malawi; tobacco; agriculture; development; globalisation; colonisation

Introduction

Since the 1890s, tobacco leaf growing has been central to Malawi's economy. In 2015, tobacco leaf comprised 30–40% of total exports, contributing 11% of gross domestic

Corresponding author: Julia Smith jhs6@sfu.ca.

Note

See endnote below

Notes on contributors

Kelley Lee is a professor in the Faculty of Health Sciences at Simon Fraser University, and the Principal Investigator of the Global Tobacco Control Program, which analyses the activities and impacts of the tobacco industry worldwide, particularly focusing on how the industry has adapted with forces of globalization.

Julia Smith is Research Associate with the Global Tobacco Control Project in the Faculty of Health Sciences at Simon Fraser University.

product (GDP) and 60% of foreign exchange earnings (IMF 2015). Malawi is one of the most tobacco dependent countries in the world, leading President Peter Mutharika to describe leaf growing as ‘the life of our economy’ (African News 2016). Yet this reliance on tobacco leaf exists in tension with global efforts to curb tobacco supply and demand. Tobacco use remains the biggest cause of premature death worldwide, totaling six million deaths in 2016 (WHO 2016). In 2003, the World Health Organisation (WHO) Framework Convention on Tobacco Control (FCTC) was signed as a binding treaty committing states parties to adopt measures to reduce tobacco use. Malawi remains among a handful of countries that has not ratified the agreement. Instead, the government has continued to defend the industry as essential to its economy, and has frequently blamed tobacco control advocates for declining leaf prices and farmer impoverishment. At the opening of the 2015 tobacco market, President Peter Mutharika is described as stating that he is ‘aware that the tobacco industry is facing a lot of challenges and key among them is the issue of the anti-smoking lobby,’ and that ‘this has had and will continue to have negative effects on demand for tobacco world-wide and may therefore seriously affect Malawi’s foreign exchange earnings and the livelihoods of our tobacco farmers’ (Chauwa 2015).

While tobacco leaf is clearly an important source of foreign exchange earnings at the national level, claims that the crop is beneficial to farmers’ livelihoods are questionable. A 2016 study found that Malawian tobacco farmers make an average profit of US\$79 per acre, which is substantially less than the average in the agricultural sector (US\$351). It concludes ‘tobacco farmers are not earning enough to support a sustainable livelihood’ (Makoka et al. 2016, 5). The low earnings of tobacco farmers suggest the industry’s contribution to economic development may be over stated. As Davies writes, ‘The case for Malawi to continue tobacco production is based on a number of assumptions...it is important to challenge existing beliefs and not allow the propagation of myths based on industry rhetoric. It may be that these assumptions will not stand up to serious scrutiny’ (2003, 93).

Assertions that tobacco is essential to Malawi’s economic development have rarely been challenged, or positioned within the context of an increasingly globalising industry. Harrigan (2003), Moyer Lee and Prowse (2015), and Otañez (2007) assess outcomes of specific reforms within the tobacco industry, but do not consider how or why Malawi’s dependence on the crop is perpetuated. Prowes (2013) documents the history of tobacco production in Malawi, but does not critically examine development claims. While the tobacco control literature has described the processes by which transnational tobacco companies have adapted with globalisation and tobacco control efforts to continue to influence state agriculture and health policies, it only briefly addresses Malawi’s industry, despite the country being among the world’s top leaf producers. In reviewing the interdisciplinary literature on tobacco industry globalisation, Lee, Eckhardt and Holden (2016) note a lack of research on the role of leaf producing countries, such as Malawi.

This article seeks to bridge the divide between the scarce literature on the leaf industry in Malawi and tobacco’s global value chain to analyse the relationships between the state and tobacco industry actors at the national and global levels over time. As Lee et al. note, the existing literature on the tobacco industry needs to give ‘greater attention to temporal dimensions of change, their location within particular historical timeframes, and the

articulation of these with geographical factors' (2016, 6). A historical analysis illuminates the durability of, as well as changes within, the structures that shape the industry, enabling critical analysis of the nature and extent of globalisation, which Dicken (2015) argues should not be overstated.

This analysis divides the history of tobacco growing in Malawi into four periods: colonial (1890s to 1964); national (1964 to 1981); liberalisation (1981 to 2004) and accelerated globalisation (2004 to present). The actors that constitute the tobacco industry have changed with each period, and so must be understood differently within each historical context. The interests embedded within the tobacco industry during each period illustrate how it has evolved towards a context of intensified state capture, due to both political-economic developments and concerted efforts by industry actors.

State capture refers to 'the capacity of firms to shape and affect the formation of the rules of the game (laws, regulations, and decrees) for their private gains' (Hellman, Jones and Kaufmann 2003). State capture is frequently conceptualized as the formal and direct means that firms gain control of governing institutions (by, for example, lobbying politicians to adopt industry favourable regulations). This analysis also considers how firms shape the context they operate within through less explicit means, such as through the use of intermediaries and the media to ensure state and public discourse reflect industry interests, as well as through global level actions, such as the consolidation of industry power through mergers and acquisitions, in order to gain control over modes of production. Furthermore, while the concept of state capture is most often applied to economies in transition, here a historical approach considers how the legacy of colonization contributed to the conditions for state capture. As Mandondo and German note, 'A retrospective analysis enables an exploration of how the state apparatus has been leveraged at different periods of time in support of capital accumulation versus broad-based economic development' (2015). It is argued that, in the case of the tobacco industry in Malawi, the roots of state capture were established during colonisation, and the conditions for its growth propagated through subsequent market reforms political developments. The state has continued to respond to the interests of tobacco industry actors, as opposed to its citizens, to the point where it is now subservient to the industry.

This article is based on the secondary literature on the history of Malawi's agricultural development, reports from the government of Malawi and other development actors (e.g. World Bank), and media sources. In addition, it draws on internal tobacco industry documents available through the Truth Tobacco Library Database. Systematic keyword searches (e.g. names of tobacco industry actors in Malawi) of the database uncovered communications between, and strategies by, various political and industry insiders to provide empirical evidence of instances of state capture.

A 'light' and 'dark' industry: colonialism (1880 – 1964)

Tobacco was grown in East Africa prior to colonisation for subsistence and trade. Commercial flue-cured tobacco¹ was first grown by European settlers in the region in the 1880s and 1890s. From 1890 to 1910, tobacco production in Nyasaland (now Malawi) increased by about 75% annually as European settlers were given large tracks of land for

tobacco plantations (Giest, Otañez and Kapito 2008), with the local population displaced in the process (Woods 1993). In the early twentieth century, British American Tobacco (BAT) (a company formed in 1902 through a joint venture between the United Kingdom's Imperial Tobacco Company and the American Tobacco Company of the United States) became a key industry player in the British colonies. BAT built a factory in Nyasaland to process and handle tobacco leaf for the European market. By 1913, Nyasaland was producing the largest supply of flue-cured tobacco leaf outside of the US, almost exclusively for BAT (Prowse 2013). BAT had a particular interest in promoting tobacco as the primary export crop from the colony. Major tobacco companies were engaged in fierce competition for consistent and quality sources of leaf (Cox 2000, 310). Nyasaland offered an opportunity for BAT to diversify its leaf supply away from the US, where competitors sourced most of their leaf. The tobacco industry during colonisation included estate owners and leaf-buying companies, most notably BAT, both of which benefited from close relationships with the colonial administration.

There are numerous examples of the estate owners and tobacco companies directing colonial agricultural policies. Estate owners, who faced challenges recruiting workers for labour intensive tobacco farming, pressured the administration to institute policies that would improve their access to cheap labour. In order to develop a labour pool for the tobacco estates, the colonial administration instituted an annual hut tax of one to two months' wages on local farm workers, making it necessary for them to either engage in wage labour or cash crop production, or move to the tobacco estates. Estate owners maintained control over these labourers through annual verbal agreements, which meant unproductive tenants could be easily evicted (Prowse 2013). When independent African farmers began to commercially grow tobacco from the 1920s onwards, labour shortages re-emerged in the estate sector (Woods 1993). In response, estate owners and tobacco companies, such as BAT, successfully lobbied the colonial administration to establish a National Tobacco Board (NTB) in 1926. The NTB imposed limits on smallholder production, requiring the registration and approval of smallholders seeking to grow tobacco, and established auctions, which reduced and controlled the number of sites where tobacco could be marketed (Tobin and Knausenberger 2007). Furthermore, BAT argued that flue-cured tobacco was too technical for 'native' growers, an argument the colonial administration accepted and implemented by banning African farmers from growing the lighter tobacco. As a result, a racialised segregation was created between the growing of the more profitable 'light' tobacco by colonialists, mostly for BAT, and the growing of the lower profit 'dark' tobacco by African farmers (Prowse 2013).

In 1927, the price of flue-cured tobacco prices fell and continued to decline due to oversupply, caused by decreased demand in North America and Europe amid economic depression. Many estates owned by colonial families were bought up to form larger-scale company estates (Prowse 2013). This resulted in a shift from estate labour production (whereby farmers lived on an estate and work the landowner's fields), to estate tenant production (whereby tenants were allocated parts of the estate, which they farmed, and then were required to sell to the estate owners). This shifted production risk onto tenants, who became indebted if they did not produce agreed upon amounts or quality of leaf (Prowse 2013).

Independent African farmers, facing exceptionally low prices at the NTB markets, rioted in 1937. The NTB responded by claiming a monopsony over the purchase of tobacco grown off estates. The ability to purchase the entire crop from farmers, and transport it to the auction floor to sell to manufacturers, gave the NTB the ability to generate substantial rents. As much as half of the proceeds from these transactions went towards subsidizing NTB operations and the estate sector, thus serving the interests of the colonial tobacco industry at the costs of the farmers (Tobin and Knausenberger 2007). Throughout colonisation, the industry was governed such that African farmers were subjected to the ups and downs of external market demand, and corresponding responses by the colonial administration dedicated to protecting the estate sector from the same market forces. The estate owners and tobacco companies, such as BAT, developed an industry based on cheap labour and rents from the NTB.

‘No one knows precisely what happens to ADMARC’s profits’: nationalism (1964–1981)

During Malawi’s struggle for independence, the above described policies of the NTB became a focal point for nationalist criticism, along with the harsh labour conditions on tobacco estates (Prowse 2013). Having achieved independence in 1964, the ruling Malawian Congress Party (MCP) promoted smallholder production, with Malawi’s first president, Hastings Kamuzu Banda, emphasizing the role of peasant farmers as cash crop producers (Prowse 2013). However, as Banda consolidated his power (elected President for Life in 1971), promises to reform the tobacco sector went unfulfilled (Green 2010). Instead, the MCP used tobacco estates as instruments of patronage, purchasing them from colonial owners and selling them to political allies, who were provided with government loans and publically funded management services (Tobin and Knausenberger 2007). President Banda himself, through his company Press Holdings, acquired 18 estates on which 3000 tenants grew four million pounds of tobacco annually, as the largest interest in the industry (Van Donge and Kees 2002).

While delineations between the tobacco industry and state actors become blurred during this period, the influence of industry interests over the state apparatus are evident in policy developments. For example, the government imposed ceilings on the prices paid by estate owners, which enabled them to purchase burley leaf from tenants at prices much lower than market rates (Chipeta and Mkandawire 2008, 152). A Special Crops Act, passed in 1972, continued the segregation of the industry based on class through landownership, established under the colonial administration, with the smallholder sector restricted to growing sun-dried tobacco to sell at national auctions (Masanjala 2006). As Prowse writes, ‘the MCP political elite replicated the paternalistic arguments used 80 years previously: that peasants/ smallholder did not have the technical ability to grow quality tobacco leaf’ (Prowse 2013, 12). Smallholders growing dark tobacco were required to sell their leaf to Auction Holdings, run by the state’s Agricultural Development and Marketing Corporation (ADMARC), from which they received prices well below prevailing market rates. As little as 20% of proceeds were returned to smallholders, with profits instead invested, through loans and subsidies, into the estate sector, essentially mimicking the practices of the NTB during colonial rule (Tobin and Knausenberger 2007). As Van Donge and Kees write, ‘The new Malawian elite could appropriate surplus from the smallholder sector using similar methods to those used in

colonial times' (2002, 97). The structures of tobacco governance, created during colonisation, were continued, further entrenching industry interests over agricultural governance.

The main players in the industry, the political elite/estate owners, benefited greatly from these arrangements. The average price paid to smallholders for fire-cured tobacco in 1977 was US\$0.19 per pound, which was then sold to buyers at over US\$0.89 per pound. A report on the industry quotes a senior aid official reflecting, 'No one knows precisely what happens to ADMARC's profits' (Muller 1978, 79). However, there was evidence that large sums of money were channelled directly to President Banda's company Press Holdings. ADMARC's 1976 report shows an 'unsecured loan' of 17,090,659 Kwacha (US\$18,718,998) to the company (Muller 1978, 79).

A civil society report during this period found that such practices were 'happening with the connivance and complicity of foreign aid officials and British tobacco companies, notably Imperial Tobacco and Gallahers' (Muller 1978, 74). The report further argues that BAT purchased leaf at higher price (US\$0.75/lb) from Malawi than from neighboring Zambia (US\$0.57/lb), in 1978, in order to encourage the Malawian political elite (who owned estates and so benefited from these prices) to promote tobacco production (Muller 1978, 73). BAT, the report argues, provided preferential access to export markets in exchange for favourable government policies. It concludes, "Imperial Tobacco and buying operations in Malawi and UK-based Gallahers both have big tobacco buying operations in Malawi. They each spend around £8 million annually. They are profiting from the poverty and corruption. They have encouraged it by expanding their facilities" (Muller 1978, 78). In short, the tobacco companies developed a close relationship with the ruling elite during this period, intensifying their influence over policy making.

'Prices were totally unrealistic': Liberalisation (1981–2004)

By the late 1970s, Malawi was experiencing a balance of payments crisis due to a persistent trade deficit since independence (Van Donge and Kees 2002). Under national and international pressure, in 1981, Malawi began extensive economic and political reforms. Between 1980 and 1993, Malawi adopted 10 Structural Adjustment Programs (SAPs) in return for World Bank and International Monetary Fund financing, including three loans specifically for agriculture. The SAPs aimed to remove alleged price distortions, reduce the role of the state in agricultural marketing, and increase production and diversification of export crops (Prowse 2013). Export diversification was particularly aimed at reducing dependency on tobacco, based on World Bank assessments of the sector's harmful effects on food security and deforestation (Tobin and Knausenberger 2007). It was further recognized that Malawi was dependent on a product highly vulnerable to world price fluctuations, and which had virtually no local market, with less than one percent of the population using commercial tobacco. Export diversification was to be achieved through depreciation of the Kwacha to increase the competitiveness of Malawian exports. However, this proved unsuccessful as export development was inhibited by weak infrastructure, lack of foreign direct investment, poor labour productivity and other structural challenges. While donors promoted diversification, the lack of active participation from the state in developing the

necessary supports for new crops maintained tobacco's dominance. Consequently, depreciation of the currency made Malawian leaf prices more competitive, with the ruling elite continuing to benefit (Banda et al. 1998, 46).

The SAPs aimed to reduce the preferential treatment enjoyed by political elites and estate owners in the tobacco industry through democratic and economic reforms. President Banda resigned his title of President for Life allowing multiparty elections in 1994, and state enterprises were privatized. However, elite influence within the tobacco sector continued. For example, President Banda's Press Holdings - which was on the brink of collapse due to short-term borrowing and the oil shock of 1979–80 - was privatized as Press Corporation to meet the demands of the IMF and World Bank, and allow new investments. However, it continued to be majority owned by Press Trust, a charitable trust formed by President Banda in 1982 (Press Trust 2016). Press Corporation then entered into a joint venture with Universal Leaf Corporation, an American conglomerate, which owned a 58% stake in Limbe Leaf Tobacco Company Limited, the largest leaf buying company in Malawi. Through such partnerships with global tobacco companies Banda and other political elites used the reform process to switch their interest from the declining estate to growing global leaf buying sectors.

The World Bank's Agricultural Sector Adjustment Credit (ASAC) program further aimed to reduce elite control over the tobacco industry by liberalising the burley growing sector. Through a pilot programme during the 1990–1991 season, 7600 smallholder farmers were registered to grow burley with a maximum quota of 300 kilograms per farmer (Masanjala 2006). Concurrently, USAID introduced a US\$55 million, seven-year Agricultural Sector Assistance Program (ASAP), under the condition that the number of smallholder farmers allowed to grow burley tobacco be increased each year. Under these programmes, quota allotments for smallholders rose to 10.7 million kilograms by 1996 (Tobin and Knausenberger 2007). Smallholder production was supported by the creation of the Malawi Rural Finance Company (MRFC), which extended in-kind seasonal agricultural credit (Diagne and Zeller 2001). Based on the success of the ASAP and ASAC pilots, further restrictions were lifted and smallholder burley production rapidly expanded. While removing unfair restrictions on burley growing, these reforms also further entrenched tobacco's position as the primary cash crop in Malawi by greatly expanding the industry (Prowse 2013).

Whether, and the degree to which, liberalisation and expansion benefitted small farmers remains contested. The Ministry of Agriculture estimated that per capita incomes of smallholder burley producers more than doubled between 1991 and 1996, in real terms, from US\$153 to US\$315 (Tobin and Knausenberger 2007). Prowse (2013, 12) described 'an economic boom in districts where smallholder production was concentrated'. The World Bank claimed 'smallholder profits from burley sales have provided the largest ever cash injection of income in rural Malawi' (quoted in Prowse 2013, 12). However, SAPs also resulted in the removal of government subsidies on fertilisers and free input programs, essential to smallholders (Harrigan 2003). These new costs were combined with increased prices for inputs, due to devaluation of the Kwacha, just as leaf prices began to fall. One survey found that many of the poorest and neediest smallholders could not afford to engage

in burley production, and that ‘considerable numbers’ of the poorest who did attempt to grow burley had been made worse off by their investment (Tobin and Knausenberger 2007). Most farmers had to take out loans which, once paid, left them little profit to invest in next season’s crop. The percentage of farmers defaulting increased from 10% during the 1997–98 season, to 20% during the following three seasons (Jaffe 2003, 24). A report in the trade publication, *Tobacco Courier*, described the situation thus:

Last year, under apparent pressure from parent companies and cigarette manufacturers . . . Small producers reacted by cutting back on their already inadequate purchase of fertilisers and other inputs - whose local currency cost had been driven up by a 60% devaluation of the kwacha. This is set to depress yields further and leaf quality, cutting some growers’ net return by half. (1999, 4)

From this perspective, liberalisation encouraged small farmers to engage in a new crop with inadequate state support, which increased their vulnerability.

Liberalisation of the tobacco sector in Malawi corresponded with a period of mergers and acquisitions within the national and global industry (Bialous and Peeters 2012, 92). This eventually led to only three leaf buying firms (Intabex/Dimon, Limbe Leaf and Stancom) licensed to buy at Malawi’s tobacco auction, the only market for smallholder produced leaf (Elshof 1998). By the mid-1990s, accusations emerged that the companies were acting as a cartel (Van Donge and Kees 2002; Banda et al. 1998). Despite company denials, there was evidence of cartel-like behaviour. A 1995 Intabex report describes how, ‘it was decided, after much arduous and protracted negotiation between all the resident dealers in the Malawi market that Intabex would retain its previous seasons percentage market share....Once the percentage market share issue was resolved prices for all grades and types remained reasonably consistent throughout the selling season’ (Intabex 1995). As leaf buying firms came to such mutual agreements, the local prices paid to farmers declined. The average price for burley on the auction floor fell from US\$1.60 per kilogram in 1996 (the peak price during the 1990s) to US\$1.00 in 2000 (Jaffe 2003, 18). At the same time, the profit margins of the leaf buying firms increased as world market prices for Malawian leaf, paid by manufacturers to leaf companies, doubling during this period (Mkwara and Marsh 2013, 59).

At the global level, transnational tobacco companies (TTCs) were also consolidating. By 2000, manufacturing was dominated by five companies (China National Tobacco Corporation, Philip Morris, BAT, Imperial Tobacco Group and Japan Tobacco International). This weakened the position of leaf buyers vis-à-vis these TTCs, which could more easily switch (or threaten to switch) leaf suppliers due to their acquisitions in various regions (Bialous and Peeters 2012). As a result, TTCs insisted on prearranged contracts with leaf buying companies, exerting a downward influence on prices (Otañez et al. 2007). As one BAT report on the government auction in Malawi admits, ‘prices are dictated by the manufacturers’ (BAT 2000). A PM report further suggests the TTCs collaborated among themselves to insist on lower prices in Malawi: ‘We understand from our suppliers that all major manufacturers present...agreed with our viewpoint that these prices were totally unrealistic and after several discussions with Limbe Leaf and Stancom, prices started to ease back’ (PM EEC 1994, 2). As TTCs demanded lower prices from the leaf buying firms, the firms in turn paid lower prices to farmers. The government had little power or interest in

rectifying this situation. A representative of the Malawi Tobacco Control Commission explained, '[t]he price that is paid to the producer, it starts from the cigarette manufacturer. Because the manufacturer tells the local merchant here 'can you buy me so much tobacco, deliver it at my doorstep at four dollars twenty?' The local supplier here will then do his arithmetic, putting all their costs. So, that will be the price that at the end of day they will be competing for at the auction floor' (quoted in Otañez and Walker 2003). Prices at the government-run auctions were dictated, through the leaf buying firms, by the TTCs.

The leaf buying firms and manufacturers also continued to exercise influence over state policy, as is evident in notes from an ADMARC meeting sent by Standard Commercial (a leaf buying firm) to BAT in 1993. During the meeting, it was reported that representatives from the major leaf buying firms successfully urged ADMARC to provide seedlings and loans (despite recognised high levels of default) to farmers, and to remove support prices on the auction floors - policies that would increase leaf supply while driving prices down (Standard Commercial 1993). In addition, the buyers got assurance from ADMARC that they would have first right of refusal over leaf stocks withdrawn from auctions due to poor quality, before bids from overseas manufacturers were invited (a method previously used to dispose of rejected tobacco). In practice, this provided leaf buyers with an incentive to reject tobacco at the auction, so they could then buy at reduced prices. Not only did the leaf buying firms directly influenced policies related to agricultural supports, prices and competition, the fact that they communicate these developments to BAT, suggests industry wide collusion to ensure a favourable policy environment.

Despite the challenges faced by smallholder farmers, the tobacco industry (leaf buyers and manufacturers) and government collaborated to develop a narrative that asserted that leaf was essential to the national economy and rural livelihoods. When an article about the impacts of tobacco growing on deforestation was published in 1996, BAT contacted the Tobacco Association of Malawi (TAMA) with ideas on how to counter the negative press generated by the article (Watson 1996). BAT's public relations firm, Hallmark, drafted a press release, distributed on TAMA letterhead, which quoted TAMA president Andrew Mzumacharo stating, 'According to misinformed reports in South African newspapers, tobacco producers have been blamed for using most of our country's wood production to cure tobacco...Nothing could be further from the truth....Journalists who play fast and loose with facts do real damage to Malawi's reputation and to the prospects for our main export earning crop' (Hallmark 1996). The argument, that any critique of the tobacco industry in Malawi threatened economic development, was consistent with evidence of tactics used elsewhere by the tobacco industry to counter reports of leaf growing causing deforestation (Lee, Botero & Novotny 2016). Such statements illustrate how industry actors were able to influence the national economic narrative to serve their interests.

Claims by the industry, of solidarity with smallholder farmers, became important during the FCTC negotiation process. Previous analyses have shown that TTCs, recognizing the threat posed by the treaty to their profits, created front groups in tobacco growing countries to oppose the WHO and global tobacco control advocates (Lee 2014; Smith, Thompson and Lee 2016). For example, in 2000, PM paid for a TAMA representative to attend the UN Economic and Social Council Meeting on the proposed FCTC. In his report to PM, the

TAMA representative describes how he worked with the Malawian government to craft the state's position on the FCTC. He expressed 'sadness that the Convention drafting is not transparent since stakeholders are not involved in full...that the deaths due tobacco e.g. in Malawi are exaggerated...and that the economic importance of tobacco is underrated grossly' (TAMA 2000). Through TAMA, documents suggest PM was able to exert influence over the government's position on the FCTC, which used economic arguments to try to weaken measures. As Holden and Lee write, 'the more structural power TTCs have, as a result of the dependence of any given country on the employment provided by leaf growing or cigarette production, the more likely that country's government is to oppose effective tobacco control policies at the national and global levels' (Holden and Lee 2009, 333). In such cases, state capture extended from national marketing regulations to global policy positions.

'Now part of the global village': accelerated globalisation (2004 to Present)

By 2004, global consumption of cigarettes was falling steadily in traditional markets due to increased awareness of the health harms of smoking and tobacco control policies (WHO 2008). Article 5.1 of the FCTC, signed in 2003, adopted measures to restrict TTC influence over health policy. Although Malawi did not sign the FCTC, it was affected by stronger regulation of the tobacco industry worldwide and decreased demand for leaf. At the same time, however, new opportunities for Malawi growers emerged as TTCs shifted to sourcing leaf from LMICs given lower production costs and less stringent regulations (Bialous and Peeters 2012, 15). By 2004, Malawi was among the five top leaf-producing countries globally.

Following elections in 2004, the new president, Bingu wa Mutharika of the Democratic United Front, sought to reform the tobacco industry and reversed some policies implemented under liberalisation. For example, the government reintroduced subsidies for fertilisers in 2005 (Green 2010). The government also commissioned a study, by Malawi's Anti-Corruption Bureau, which concluded that Limbe Leaf and Alliance One (now the only two leaf buyers at auction due to further consolidation) operated a cartel, colluding to reduce competition and decrease auction prices. It found 'deep-rooted collusion that appears to go back over at least a decade between the three principle buyers (now two). It can be fairly said that the structure of the industry is not conducive to competitive activity, nevertheless the careful analysis and maintenance of market share and close correlation of prices point directly to market manipulation by the major buyers' (quoted in Otañez, Mamudu and Glantz 2007, 264). The President then spoke publically against the practices of leaf buyers, noting 'poor smallholder farmers in Malawi have remained poor because they are cheated by an international cartel that connives to buy our tobacco at exploitative prices and yet they sell the same tobacco at huge profits in their countries' (quoted in Maeresa 2006). He directed Limbe Leaf and Alliance One to pay a minimum of US\$1.10 per kilogram for low-quality tobacco at the 2006 auction. However, the companies ignored the directive and paid as little as US\$0.50. The government's ability to force compliance was restricted given its dependence on the two companies, which controlled 95% of the leaf market, to purchase the country's tobacco (Chirwa 2011). Instead the government created its own leaf processing company—the Malawi Leaf Company Limited—to increase competition. However, to date,

Malawi Leaf's lack of relationships with onward buyers and inadequate infrastructure has kept it a minor player. Prices have remained low amid continued accusations of cartel-like behavior (Otañez, Mamudu and Glantz 2007). Even in the context of state opposition to unfair corporate practices, tobacco industry dominance of the market and regulatory system have proven entrenched.

This influence remains evident in the continued links between governance bodies and corporate actors. Several politicians continue to own tobacco estates and stakes in leaf buying companies. For example, John Tembo, former President of the Malawi Congress Party, owned large tobacco farm and was board chairman for the Limbe Leaf Tobacco Company (Makoka, Munthali and Drope 2011). The government holds a 51% control of Auction Holdings which, in turn, owns the tobacco re-handling subsidiary, Tobacco Investment Limited, which re-grades tobacco that is rejected on the floors (Chirwa 2011). As Auction Holdings is the decision maker on the quality of tobacco on the floors, as well as the purchaser of the rejected tobacco through its subsidiary, it has an interest in working with leaf buyers to keep prices low and offload large quantities of 'rejected' tobacco to Tobacco Investment Limited. The Tobacco Control Commission also remains composed of industry representatives, a legacy that dates back to its colonial roots as the National Tobacco Board. For example, TAMA is a board member, holds a 2% share in Auction Holdings Limited, and a 25% stake in a leaf buying company. The Tobacco Exporters Association, an association of all the tobacco buying companies in Malawi, also has two members on the commission's board. As Chinoko writes, 'the fact that these companies have their interests represented on the board of the regulator, when they are also the regulated, makes the situation precarious' (2013, 41). As the Commission is responsible for licensing all actors in the tobacco industry, board members with vested interests in the leaf sector may be motivated to deny licenses to competitors. Similarly, as the Commission is responsible for grading tobacco, there is the opportunity for leaf buying firms to encourage lower grading of leaf to depress prices paid to farmers.

Since the mid-2000s, TTCs have instigated a global shift to contract farming, which allows greater tractability, and ensures production under specific labour, agricultural and environmental practices (Prowse 2013). Through contracts, farmers enter into direct arrangements with a company to produce a certain quantity of tobacco under an agreed production process (Chinoko 2013). This traceability allows TTCs to counter criticism around harms to the environment and exploitive labour practices, by providing a clear record of where and how the leaf is produced (Lee et al. 2016). TTCs have therefore demanded leaf buying firms and leaf producing states institute contract farming. The Government of Malawi removed the legal requirement that leaf be sold at auction in 2012 when it introduced Integrated Production System (IPS) legislation. As some TTCs, such as Japan Tobacco International, have since begun directly contracting to farmers (cutting out the leaf buying firms), the pressure on leaf buyers to adapt to contract farming is substantial and all have done so. Consequently, contract farming has expanded rapidly in Malawi; in 2015, 80% of tobacco was sold on contract (Chauwa 2016).

The impacts of these changes on farmers' livelihoods are debated. Contracts provide farmers with inputs such as seed, fertilizers and chemicals, in return for a grantee to sell to the

merchant. Farmers also gain access to credit from commercial banks and agronomic supervision, and are generally paid more per kilogram than at auctions. In 2014, the average price per kilogram for contract tobacco was US\$2.60 compared to US\$2.18 at auction (Chauwa 2016). Some merchants also provide farmers with food crop seeds. While improving farmers' food security is presented as good corporate social responsibility, it is notable that this also increases farmers' dependence on leaf merchants, amid chronic food shortages, and reduces the ability of farmers to terminate unprofitable or unfair contracts. Moyers-Lee and Powers (2015) find that food security is one of the reasons farmers remain in the tobacco sector, even though they receive poor returns. As most of Malawi suffers from chronic food insecurity, with about half of all children suffering from acute or severe malnutrition, farmers enter into contracts in order to secure immediate relief of food aid, despite the long term risks of the agreements (FAO 2015). This context of poverty and food insecurity also discourages farmers from switching to other crops which may, in the long run, provide greater returns. Such diversification requires start-up capital and the ability to wait for returns over an extended period of time as crops mature. Tobacco farmers, in contrast, have immediate access to capital (through contracts), existing inputs and access to food crop seedlings.

Makako et al (2016) find access to credit is a primary reason farmers engage in contracts amid few other sources of financing. Credit, however, can increase farmers' vulnerabilities. There is growing evidence that, due to their uneven bargaining power with leaf buyers, smallholder farmers under contract risk falling into debt-bondage cycles when unexpected events occur (Geist, Otanez and Kapito 2009). There are reports of leaf buyers extending more credit to farmers than they pay for the crop at the end of the contract, increasing indebtedness and failing to buy the agreed upon quota (claiming poor quality) (Nzangaya 2016). Farmers are reportedly not always informed of the details of their loans, such as interest rates, and are not assured a set price (buyers claim dependence on world market trends and government policies) (Chinoko 2013). However, farmers continue to enter into these agreements, due to lack of access to other sources of credit, which is essential to developing their farmers.

In many ways, contract farming is reminiscent of the colonial system of outsourcing, and transferring market risk solely to farmers who have little negotiating power over the terms of the agreements. As Prowes writes, '[r]eflecting back on the last century or more, the rapid increase of contract farming with smallholders is a modern-day equivalent of traders offering advances to customary land growers in the Southern Region in the 1910s' (2013, 14).

Recently, farmers have accused contract leaf buyers of operating a cartel, like the auction floors, to keep prices low. In February 2015, tobacco farmers petitioned the government to recall or change IPS legislation due to the livelihood vulnerabilities contracting farming was generating (Chauwa 2015). In response, the head of the Tobacco Control Commission stated: 'Malawi is now part of the global village. So it is not so easy to say "we recommend this or that" . . . it is also important that we take into account the global demands in the production of leaf, knowing full well that we do not buy the leaf on our own. We rely on exports' (quoted in Gunya 2015). Malawi's continued dependence on leaf exports, within a

globalised value chain, means the country has little bargaining room with the TTCs, which insist on contract farming, regardless of the negative impacts on farmers.

In 2015, a particularly bad year for tobacco farmers due to poor weather conditions as well as low tobacco prices, *Tobacco Reporter* published an article entitled ‘Malawi farmers derive no benefit from tobacco,’ documenting how many farmers were left with little profits after repaying loans. In 2016, prices were not much improved, with buyers offering US\$0.80 for the highest and US\$0.40, per kilogram, for the lowest grade leaf, and rejecting 60% of the auction crop (*African Business Magazine* 2016). In defending low leaf prices in Malawi, the leaf buying firms and TTCs blamed over supply and resultant low world prices. The Government of Malawi blamed the tobacco control community for reducing demand (Chauwa 2015). Yet, despite fluctuations in supply, price and tobacco control efforts, it is notable that TTCs and leaf buyers continued to enjoy significant growth and rising profits. In 2015, the industry experienced its best year by volume of sales, since 2006, and TTCs have boasted record share prices and financial returns since 2011 (Lee, Eckhardt and Holden 2016). These trends strongly suggest, not an industry in sharp decline, but one built on regulatory and market conditions, from the national to global levels, which heavily favour global corporations, at the expense of smallholder farmers.

Conclusion

From colonisation to globalisation, the political economy of the tobacco industry in Malawi over the past century has evolved towards state capture. Control over the modes of production and exchange of tobacco leaf were first dictated by colonial estate owners and then political elites (tenant farming), and have more recently shifted to TTCs (contract farming). This system has been sustained by a regulatory system heavily influenced by leaf buyers and manufacturers. From the creation of the NTB, to the membership of the current Tobacco Control Commission, leaf buyers and TTCs have been able to determine the prices paid to farmers at government-run auctions and under contract farming. Throughout this history, market risks have largely been born by smallholder farmers whose share of profits have remained meager. Globalisation has entrenched the structures of state capture, to the extent that even when the government seeks to challenge corporate power its ability to affect change is limited.

Importantly, this paper argues that, state-capture is not only present in the formal structures of industry governance, it is evident the national economic narrative that consistently positions tobacco as essential to economic development. Government spokespersons and industry frequently claim that the woes of smallholder farmers are due to the efforts of tobacco control advocates to reduce demand globally (Chauwa 2015). This article reveals the contradictions within this narrative, demonstrating that the tobacco industry has never benefited the vast majority of the 350,000 farmers in Malawi, and is indeed counterproductive to development aims. The narrative of the industry as an engine of economic development in Malawi does not hold up to historical scrutiny.

The history of the political economy of leaf farming in Malawi has implications for the analysis of the tobacco industry’s increasingly global value chain. Malawi demonstrates how

returns are primarily captured by a transnational elite, comprised of a small number of large companies dominating leaf processing and product manufacturing, operating on a global scale. It further illustrates how acquisitions and mergers worldwide have increased opportunities for state capture at the national level, and the barriers national governments and local producers face when seeking to challenge this concentration of power. It is unlikely that further reforms from within the industry will redress the dominance of a powerful few, especially given the continued trend towards increased consolidation among TTCs. In this sense, tobacco industry globalisation is not only harmful to health, it is also economically and politically unjust.

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