

# Madagascar: Trade Brief\*

## Trade Policy

After mild reforms in the 1980s and increased trade reforms since the early 1990s, Madagascar's trade regime appears at first sight to have become more restrictive in the mid-2000s, as many tariff levels have increased. However, these higher rates are the result of the country simplifying its tariff structure and consolidating its import duties in 2005, which have led to higher customs tariffs while other taxes on imports have fallen or were eliminated. Exchange controls and quantitative restrictions were abolished in 2000. Thus, the country has actually improved its tariff policy, with the consolidated simple average falling from 16.2 percent in 2005 (according to national sources) to 12.4 percent in 2007. According to the latest Trade (MFN) Tariff Restrictiveness Index (TTRI, with a score of 12 percent), the country is ranked 101<sup>st</sup> out of 125 countries, consistent with the sub-Saharan Africa (SSA) and low-income country group averages. The 2007 MFN applied simple average also approaches the mean for its SSA and low-income group counterparts, but the trade-weighted (9.6 percent) tariff average remains lower than its comparators' rates. Only 24.8 percent of imports enter under MFN zero duty, reflecting just 2.2 percent of all tariff lines with MFN zero duties compared to the 18 percent of lines with this status on average in other SSA countries.

## Market Access

As judged by the latest Market Access TTRI, where it is ranked 48<sup>th</sup> out of 125, Madagascar's agricultural exports enjoy more favorable access to foreign markets than those from an average SSA or low-income country. Its manufactures, however, face noticeably higher trade barriers (in terms of tariffs but also with respect to nontariff measures). A Generalized System of Preferences (GSP) beneficiary with a number of industrialized countries, its exports are eligible for duty-free access with most OECD countries, including under the United States' Africa Growth and Opportunity Act (AGOA) since 2000. Madagascar recently negotiated an Economic Partnership Agreement (EPA) with the EU as a member of the Eastern and Southern Africa (ESA) regional group, which took effect at the beginning of 2008, replacing the expiring trade portion of the Cotonou Agreement. This new EPA gives Madagascar zero duties on exports to the EU under both the EPA and the "Everything but Arms" regulation. At the regional level, Madagascar is a member of the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the Indian Ocean Commission. In 2006, 16.8 percent of its MFN exports were granted duty-free access, much less than the regional and low-income group averages of around 40 percent. Only 12.0 percent of its exports went to FTA partners.

## Behind the Border Constraints

Regarding its business environment, Madagascar's latest Doing Business overall rank improved from 160<sup>th</sup> in 2006 to 149<sup>th</sup> out of 178 in 2007. In the subcategories, its rank on Starting a Business rose from 117<sup>th</sup> to 61<sup>st</sup>, but on Closing a Business it ranks worst out of the 178 countries in the survey. Lagging behind its regional and low-income group averages, Madagascar ranked 119<sup>th</sup> (out of 150) on the 2006 Logistics Performance Index, with the poorest indicator being logistics competence. In the Trading Across Borders subcategory, Madagascar improved from 143<sup>rd</sup> in

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\*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

2005–06 to 126<sup>th</sup> out of 178. The country's per capita rates for telephones and mobile phones (6 percent in 2006) and Internet usage (0.6 percent in 2006) are significantly below the SSA and low-income country averages. Madagascar's underdeveloped transportation and telecommunications infrastructures and inefficient customs procedures (including red tape, excessive physical inspections, and poor control over transshipments and smuggling) constitute considerable constraints to trade activity.

## Trade Outcomes

Madagascar's real growth in total trade of goods and services accelerated from an average of 4.4 percent in 2005–06 to 6.1 percent in 2007 (98<sup>th</sup> highest of 160 countries). Its trade share in GDP (66.3 percent) is below the regional (88.4 percent) and low-income group (88.1 percent) average openness ratios. Over two thirds of trade is merchandise driven. Traditionally an exporter of shrimp and fish (13 percent of exports), spices, and tourism services, Madagascar's textile exports have increased in recent years, in part due to the introduction of preferential access to U.S. clothing markets through AGOA in 2000 (though such expansion has been slowing down following the 2005 Multi-Fiber Agreement [MFA] phase-out). France remains the main destination of Madagascar exports (32 percent in 2005–06), though the United States has been gaining a larger share (28 percent) since the implementation of AGOA and increased vanilla shipments. France is also a major source of imports, though in recent years it has been losing its share to developing countries such as China.

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