

## Madagascar Trade Brief

### Trade Policy

Madagascar has been implementing trade reforms since the 1980s and recently, in 2005, it simplified its tariff structure and consolidated its import duties. With an MFN Tariff Trade Restrictiveness Index (TTRI)<sup>1</sup> of 13.6 percent, the country appears to have a slightly more restrictive trade regime than its Sub-Saharan Africa (SSA) (11.3 percent) and low-income country comparators (11.6 percent). It ranks 115<sup>th</sup> among 125 countries. The country's agricultural and non-agricultural sectors enjoy a similar level of tariff protection. The country's average MFN applied tariff including ad valorem equivalents of specific tariffs is 12.4 percent, although, taking into account preferences, the applied tariff is 11.3 percent. The maximum MFN tariff (excluding alcohol and tobacco) applied by the country is 20 percent. Its trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), is 17.1 percent. Madagascar ranks last out of 148 countries on the GATS Commitments Index, indicating substantial room for further commitment to services trade liberalization.

To address the food and fuel crisis in 2008, the government reduced import duties on oil, flour, and rice, and also restricted rice exports from March to November of that year.

### External Environment

As judged by its Market Access TTRI<sup>2</sup> including preferences of 1.3 percent, which is far below both the SSA (3.9 percent) and the low-income country (5.6 percent) averages, Madagascar's exports enjoy

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at <http://www.worldbank.org/wti>.

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relatively favorable access to foreign markets. Telling a similar story, the weighted average overall rest of the world tariff (including preferences) faced by the country's exports is a low 0.8 percent. Although the country's market access is favorable overall, its agricultural products face significantly higher trade barriers (3.4 percent) than its non-agricultural products (0.2 percent). The Madagascar currency, the ariary, appreciated by 9 percent against the U.S. dollar in nominal terms in 2008, making the country's exports more expensive in foreign currency terms.

To boost its market access, Madagascar initialed an interim Economic Partnership Agreement (EPA) with the EU in December 2007, providing a framework for the completion of a comprehensive EPA in the future. The country benefitted from membership in the Southern African Development Community (SADC), whose Trade Protocol, which was signed in 1996 and came into force in 2000, culminated in the launch of a free trade area in August 2008. However, Madagascar's membership was suspended in March 2009 following a coup d'état in which the opposition leader, Andry Rajoelina, took over from the president, Marc Ravalomanana. As a further blow to its market access, Madagascar may face reduced access to some of its clothing markets given South Africa's application to the International Trade Administration Commission in June 2009 to raise tariffs on 127 lines of garments from 40 to 45 percent, and the end of the Multi Fibre Arrangement (MFA), which had previously restricted the exports of China and other Asian competitors to the North American and European markets. Clothing accounts for about a quarter of Madagascar's exports. The country also belongs to the Common Market for Eastern and Southern Africa (COMESA), which established a customs union in June 2009 with plans of fully implementing it by 2012.

### Behind the Border Constraints

Madagascar remained in the bottom 30 percent of international business environments in 2009, being ranked 134<sup>th</sup> out of 183 countries, in the Ease of Doing Business index. On the Logistics Performance Index (LPI), which measures the extent of trade facilitation in the country, Madagascar scores 2.24, on a scale of 1 to 5, lagging behind the SSA and low-

income averages of 2.35 and 2.29, respectively. It ranks 120<sup>th</sup> (out of 150) in the world and 27<sup>th</sup> (out of 39) in the SSA region. Its best performance on the LPI is in lowering domestic logistics costs while its weakest performance is in the competence of the local logistics industry.

## Trade Outcomes

Trade grew at a healthy rate of 10.6 percent in real terms (in constant 2000 U.S. dollars) in 2008, through a deceleration from an impressive 23 percent growth in 2007, and is expected to fall by 1.8 percent in 2009. World Bank estimates suggest sharp deceleration in export growth to 2.9 percent in 2008 from 25 percent in 2007, while import growth experienced a less steep decline to 15.6 percent in 2008 from 21.8 percent in 2007. Both exports and imports are expected to fall in 2009 by 1.2 percent and 2 percent, respectively.

In nominal terms, trade growth slowed to an estimated 17.9 percent in 2008 from 28.5 percent the year before, and is expected to turn negative in 2009, with trade falling by 7.1 percent. World Bank estimates suggest a steep fall in total export growth from 18.5 percent in 2007 to 2.5 percent in 2008, and a smaller fall in import growth from 36 percent in 2007 to 28.1 percent in 2008, driven by rising imports of mining equipment and high food and fuel prices. National statistics<sup>3</sup> show a 24 percent increase in goods exports in nominal U.S. dollar terms in 2008, lower than the growth rate of 36 percent the previous year, as a result of weaker performance in the country's Export Processing Zones (EPZs), where output grew at 8.6 percent, compared to 28.6 percent in 2007,<sup>4</sup> as textile companies continued to be negatively affected by the end of the Multi Fibre Arrangement. National statistics also show a 58 percent increase in goods imports in nominal U.S. dollar terms in 2008, compared to 39 percent in 2007. Adding to its current exports, dominated by textiles, Madagascar is expected to start exporting ilmenite from its Taolagnaro mine in 2009. FDI is estimated to have doubled between 2006 and 2008,<sup>5</sup> due mainly to inflows into mining projects.

## Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports

constant. It is weighted by import values and import demand elasticities of trading partners.

3. Institut National de la Statistique de Madagascar 2009a, 2009b.
4. African Economic Outlook, 2009.
5. African Economic Outlook, 2009.

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