SUMMARY

1. Madagascar is slowly recovering from the sociopolitical crisis which broke out in 2009 and was brought to an end by the December 2013 presidential elections. The economic upturn which began in 2014 has been boosted by the strong performance of rice farming and the extraction and subsequent exportation of heavy metals such as nickel, cobalt and titanium. Trade reforms, especially in the area of trade facilitation, have also played a part.

2. Madagascar has experienced far-reaching changes in the structure of its merchandise trade since the previous review of its trade policy in 2008. The country has become a major exporter of nickel and other minerals and ores. Agrifood exports have become more diversified, reflecting the immense wealth of Madagascar's land and of Malagasy know-how. Services exports have also grown, representing a market of close to US$1.4 billion, in view of the importance of tourism. Exports of made-up clothing, traditionally Madagascar's leading export group, plummeted with the end of the preferences granted by the United States under the AGOA, which were reinstated in June 2014.

3. Overall, economic growth in the period 2009-2014 (averaging less than 1% per year) remained well below its potential, as Madagascar emerged from its fourth sociopolitical crisis in 20 years. These recurrent crises have discouraged external partners and plunged the population into severe poverty: more than 90% of the country's inhabitants (compared to less than 70% in 2005) are living on less than 2 US dollars a day, and many people suffer from malnutrition. Madagascar will be unable to achieve most of the Millennium Development Goals (MDGs) by 2015, even those which had been considered achievable before the most recent crisis.

4. The crisis and its various consequences (including the rundown state of basic infrastructure – transport, energy and water in particular, the worsening of the country's governance problems and the subsequent drying up of all forms of foreign aid), caused a sharp fall in government revenue. With operating expenses remaining high, the public deficits which should have ensued were contained by cuts in the investment budget. Even so, the fiscal deficit (including grants) amounted to 3.5% of GDP in May 2015. The Central Bank has contributed, in accordance with its statutes, to financing the budget deficit, and the other domestic banking institutions have also made contributions. The resulting crowding-out effect, along with a judicial environment inspiring but little confidence (including in regard to the realization of bank guarantees), has been instrumental in maintaining lending rates at very high levels approaching 50%.

5. Inflation in Madagascar, the main determinants of which include the prices of agricultural products (especially food products) on local markets and the prices of imported petroleum products, has been gradually lowered from 10.3% in 2007 to around 6% recently, as a result of State subsidies in the form of a parallel preferential exchange rate (overvaluation of the national currency, the ariary) for imports, together with several successful rice-growing seasons. The import subsidies on petroleum products did, however, contribute to the shrinking of the country's international reserves (equivalent, on average, to 2.9 months of goods and non-factor services imports between 2008 and 2013), leading to the reintroduction of the requirement that a portion of export earnings be repatriated and converted into ariary. The national currency has fluctuated somewhat, with an overall trend towards appreciation of the real effective exchange rate and, therefore, towards a less competitive domestic economy. Overall, the sharp decline in imports and exports of goods and services, which fell from 80% to less than 70% of GDP between 2008 and 2014 despite the growth in mining exports, reflected, among other things, a slight dip in the importance of trade for Madagascar.

6. The mining sector owes its strong performance to major foreign direct investment in two mining projects, despite the country's political instability. Since the start of operations to extract nickel, cobalt, titanium and other heavy metals in 2013, the Malagasy economy has become essentially mining-based, and now obtains a third of its export earnings from these products. Nevertheless, the mining sector's contribution to GDP is just 4%, as the products exported are generally unprocessed, and gold and precious stones are extracted and exported for the most part on an informal basis. In any event, at present Madagascar does not have the infrastructure needed to produce electricity in the quantity normally required by a mineral processing industry.

7. Restructuring the electricity operator JIRAMA and upgrading the country's electricity supply had already been identified as priorities in Madagascar's previous review, in 2008. These priorities remain as relevant as ever, and Madagascar's per capita electricity consumption is less than one tenth of average African consumption. Although the sector is, *de jure*, open to competition, the fact that electricity selling prices are fixed by the State at low levels (below production cost) does not encourage the entry of new operators. Some economic operators are obliged to lease costly and polluting generators in order to produce their own power.

8. In the petroleum sector, the State has also intervened in many trade-related areas, such as price setting, the suspension of duties and taxes, and a parallel preferential exchange rate. Some services, in particular maritime cabotage of petroleum products and the provision of aviation fuel, are currently in the hands of suppliers holding monopolies. In this connection, the drop in global prices in 2014 should prompt the Government to reinstate the "true price level" of these products on the domestic market and undertake a reform of the sector. Customs duties on mining and energy products are 7% on average, with rates ranging up to 20%.

9. Madagascar's agriculture has also been through very difficult years since 2010, with virtually zero growth over the review period and a sharp decline in 2013, when the rice and maize harvests were destroyed by swarms of locusts, a cyclone, floods and drought. Unlike a number of African LDCs, Madagascar appears to have been unable, over the past decade, to adopt the means needed to bring about a real increase in food production; in 2013, net food production per capita had fallen back to its 2004 level. As a result, there has been a substantial increase in imports of most food products since 2008.

10. The agricultural sector also offers tremendous export potential through a range of niche products, such as cloves, vanilla, lychees, honey, foie gras, groundnuts, cocoa paste and unroasted coffee. Madagascar still has vast swathes of potentially arable, but still unexploited land on which to develop such production, but the land problem is currently one of the key challenges to investment in the country. A wide-ranging reform of land legislation, initiated in 2005, has already led to significant progress in making property ownership more secure. It would be sensible to broaden this reform to encompass the conditions of access to real estate by foreigners, which might be re-examined and published on the Internet. Although foreigners have access only to titled, state-owned land by means of long leases, many other texts contain references to the "acquisition" of land by foreigners, and some companies change nationality or use nominees for this purpose.

11. Madagascar has substantial fishery and aquaculture potential, and its shrimp and crab exports are significant. However, deep-sea fishing in Madagascar's waters takes place under trading conditions which are favourable to foreign companies, in that there are no maximum catch limits. Reforms are needed in order to achieve sustainable management of resources while maximizing income from fisheries. Forest management has been affected by serious abuses, and the authorities have not yet succeeded in halting exports of rare timbers (palisander and rosewood), or of crocodiles and other wild animals, despite commitments made within CITES. The average level of protection of the agricultural sector (including plant, animal, fisheries and forestry production) is 14.1%, slightly higher than in 2008 (13.9%).

12. Provided that appropriate policies are introduced, the manufacturing sector offers exceptional opportunities, especially in the agrifood and handicrafts areas, because of Madagascar's abundant flora and fauna, its rich waters and the wealth of Malagasy know-how. It is highly likely that growth in these areas will largely come from small-scale SMEs, as long as the State does away with the excessive, complicated and less than transparent taxation which is currently discouraging them from moving out of the informal economy. Industries, especially those which are export-oriented, are adversely impacted by the high taxes on businesses and cumbersome labour legislation, as well as by the difficulty of obtaining foreign currency to purchase inputs and the high rates of duty on the latter, long delays in the payment of VAT refunds, the high cost of customs controls and quality controls, burdensome export documentation requirements and, lastly, the requirement that a portion of earnings be repatriated and converted into the national currency.

13. The Free Zones and Enterprises (ZEF) regime, under which a large number of enterprises have registered (in many cases fictitiously), could provide a partial solution to the problem. The bulk of industrial investment in Madagascar would not have taken place without this regime, which

offers all manner of generous benefits to investors that undertake to export, in principle, 95% of their production. However, as the regime is being widely abused it is a prime candidate for far-reaching reforms, with a view to better integration in the ordinary law regime.

14. During the period under review, significant progress was made in the area of trade reforms, especially as regards trade facilitation. Madagascar continues to grant at least MFN treatment to all its trading partners. It has never been involved as either complainant or defendant in a WTO dispute settlement process. The country has recently made remarkable efforts to update its WTO notifications; its WTO Reference Centre is operational, and local participation in WTO online training courses has increased significantly as a result. Madagascar is party to trade agreements covering around 50 trading partners, including COMESA and the SADC, the most recent of these being the interim Economic Partnership Agreement (EPA) between the EU and the Eastern and Southern Africa States, which entered into force in 2012. Madagascar grants duty-free entry to all its SADC and COMESA partners, on a non-reciprocal basis. Tariff reduction under the EPA began in January 2014.

15. There have been a number of tariff reductions, essentially on agricultural inputs, bringing Madagascar's simple average applied (mainly *ad valorem*) MFN rates down from 13% in 2008 to 12.2% in 2015. However, less than one third of tariff lines are bound; a few of the applied rates exceed the bound level; and less than 6% of the applied tariff is zero-rated. Having lowered its customs duties, Madagascar would do well to resist the temptation to generate tax revenue from import and export flows by increasing the rates of other duties, as illustrated by the new excise duty on imported vehicles. Import taxes (levied internally and on entry), which account for more than half of tax revenue, still figure prominently in the government budget, and this is thwarting attempts to eliminate taxes on international trade.

16. Madagascar has been striving constantly since 2005 to improve its customs services. Since March 2015, minimum import values are reportedly no longer being used for customs valuation purposes. Significant progress has been made with the electronic Single Window, and the move towards paperless customs clearance procedures is very close to completion. The MIDAC System, an integral part of the Single Window, now allows several of the numerous control institutions required to approve import and export transactions to transmit their respective authorizations electronically to the Customs. However, work still remains to be done to ensure that the fees assessed actually reflect the services provided. Technical and financial assistance to upgrade the legislative and institutional framework for standards and technical regulations, such as sanitary and phytosanitary measures, seems essential, particularly in order to boost Malagasy exports.

17. Government procurement volumes fell sharply in 2009, probably owing to the sociopolitical crisis. Foreign sources of supply accounted for a mere 0.6% of total government procurement in 2013. Madagascar is neither a member nor an observer of the Plurilateral Agreement on Government Procurement concluded under WTO auspices. The country has nevertheless made significant efforts to be transparent by publishing its automated government procurement management system on the Internet.

18. The authorities are aware that any reform of trade policy will be ineffective if it is not underpinned by improvements in Madagascar's sociopolitical system. These would involve, in particular, strengthening political and constitutional stability and ensuring the rule of law, enhancing the legal protection of persons, strengthening real-estate ownership rights and improving governance, including within the many state-owned enterprises. If these reforms are achieved, the Malagasy people, who have seen most of their social and economic indicators plummet over the past seven years, will have renewed cause for optimism.