Connecting local enterprises to global markets: Situation in Madagascar

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Outline

• Main reforms on Trade policy
• Dynamic of export
• Case of Export Processing Zone
• Potential in terms of trade
• Main Constraints
Main reforms on Trade policy

• Madagascar has been implementing trade reforms since the 1980s. To boost its market access, Madagascar initialed:

  – Incentives for trade policy
  – Bilateral trade relations
  – Regional trade agreements
Main reforms on Trade policy

- Incentives for trade policy
  - Transition to floating exchange rate regime in 1994
  - Elimination of export taxes
  - Exports benefit of the zero-rated VAT, i.e refund within 30 days of VAT levied on inputs that are consumed in the production of the exported product
Main reforms on Trade policy

• Regional Trade Agreements
  – Integration to Indian Ocean Commission (COI) in 1984
  – Integration to Common Market for Eastern and Southern Africa (COMESA) in 1994
  – interim Economic Partnership Agreement (EPA) with the EU in December 2007
  – integration in the Southern African Development Community (SADC) in 2005
Main reforms on Trade policy

• Bilateral trade relations
  – Creating of Chamber of Commerce (South Africa, Russia, France, USA, etc)
Despite the opening of the Malagasy economy growing substantially since the 2000s, the contribution of exports to wealth does not improve.
Dynamic of export

The share of exports to neighbouring countries remains low and shows clearly a weak effort of new markets prospecting

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Source: INSTAT
Even in terms of products, the little effort of prospection is obvious. Apart from the increased weight of textile of the Export Processing Zone (EPZ), no significant change is observed since the 2000s.

Source: Central Bank of Madagascar
The EPZ contributes only marginally to wealth and this contribution remains stable, even has been declined since 2008.

Source: INSTAT
Case of EPZ

Despite of increased on number of employees since 2002, the share of EPZ on employment is still low

Source: INSTAT
In terms of income level, EPZ employees earn always largely less than public sector and private formal sector employees and more than informal self-employed.

Source: INSTAT
Potential in terms of trade

• Estimates showed that Madagascar exploits only 52% of its market share in the regional market SADC and COMESA

• According to needs analysis, Madagascar should exploit especially:
  – agricultural potential (wheat, rice, corn and malt)
  – agrifood industry (palm oil, sugar, milk)
  – Livestock products (beef, poultry, fish)
Main constraints

The three main constraints reported by Malagasy firms compared with firms in low income countries: High electricity cost, Low skills and education of available workers, cost of financing

Note: difference in average scores.
Investment constraints

Exporting firms are less likely to consider skills and education of available workers as a major or very severe obstacle. The difference between non-exporters and exporters is much greater in Madagascar than in LIC and SSA countries.

Predicted probabilities of complaining about skills and education of workers for exporters

- **Source**: Madagascar Enterprise Survey 2005
- **Note**: difference in average scores.
Thank you for your attention