International Trade Centre

TRADE IMPACT FOR GOOD

Services snapshot

Madagascar

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KEY SERVICES DATA[1], 2012

Services [2] share of industry value added: **58%**

Services share of employment: **18%**

Trade in services [3] contribution to GDP: **28%**

Services share of exports: **52%**

Services export composition: **travel (45%), transportation (33%), other commercial services (22%)**

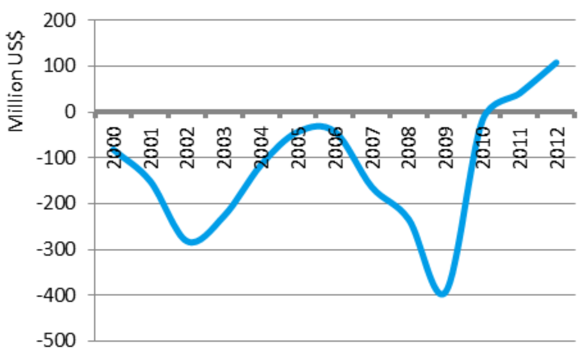
Services import composition: **transportation (47%), other commercial services (44%), travel (9%)**

Services exports: **US$ 1.3 billion**

Services imports: **US$ 1.2 billion**

Services trade surplus: **US$ 109 million**

Figure 1. Services trade



SERVICES AT A GLANCE

Political instability since 2009 still hinders economic and social progress.[4] At 2.1% in 2013, GDP growth was less than half the Sub-Saharan African developing country average of 4.7%.[5] However, the medium term outlook is for GDP growth to increase gradually to 4.5% in 2016[6], largely driven by agriculture, agro-industry, extractive industries, tourism and construction.[4]

In value added terms, the services sector accounted for 58% of GDP in 2012 compared with agriculture at 27%.[7] However, as in many other African countries, this has not translated equally into employment; employment in services in 2012 was only 18% compared with 75% in agriculture.[8]

The importance of trade in services has increased over the past few years and services now constitute more than a half of total exports, composed of 45% travel services and 33% transportation. Travel services traditionally account for the largest share of services exports. **For the decade from 2000 to 2010, Madagascar ran a net deficit on the services trade account**, reaching a low of US$ 393 million in 2009. After a strong recovery in 2010, Madagascar achieved its first net trade surplus on the services account and the trade surplus has been sustained into 2012. (see Figure 1).[9]

SERVICES SUBSECTORS

Financial services

In 2012, insurance and other financial services accounted for 3% of services exports and little less than 1% of services imports (see Figure 2). **Trade in financial services, traditionally in deficit, recorded the first significant surplus at US$ 26 million in 2012.**[9]

The political crisis has hampered reform of financial regulations and impeded growth in what is a relatively small financial sector. There are 11 banks, 6 finance establishments and 31 microfinance institutions. Only about 5% of the population use banks. In a survey of 2013, however, the national statistics institute showed insurance was the only sector to have expanded during the year, despite the political crisis.[4]

Communication services

In 2013, 1 fixed-telephone subscription and 36 mobile-cellular subscriptions per 100 inhabitants were recorded. Nearly 4% of households had a computer and similarly nearly 4% had Internet access at home.[10] There were 15 secure internet servers and 2 Internet users per 100 inhabitants, putting the country well behind most other COMESA countries.[5]

Communication services trade has followed an irregular pattern. Madagascar had trade surpluses until 2009, when both exports and imports dropped sharply. Trade subsequently recovered, but exports have not kept up with imports and in 2012, there was a communication services trade deficit of US$ 48 million. In the same year, communication services exports accounted for less than 3% of services exports, whereas the imports share was 7% (see Figure 3).[9]

Transport services

Trade in transportation is traditionally in net deficit; in 2012, a deficit of US$ 141 million was recorded.[9] Transport infrastructure is poor[11] : only 16% of the roads are paved and almost 70% of the airports have unpaved runways.[12] Air transport is very expensive.[11]

Figure 2. Financial services share in services trade

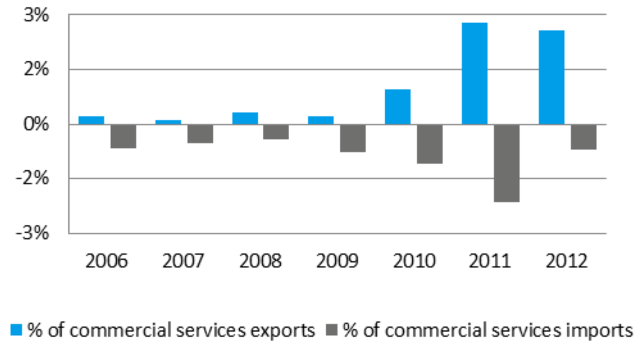


Figure 3. Communication services share in services trade

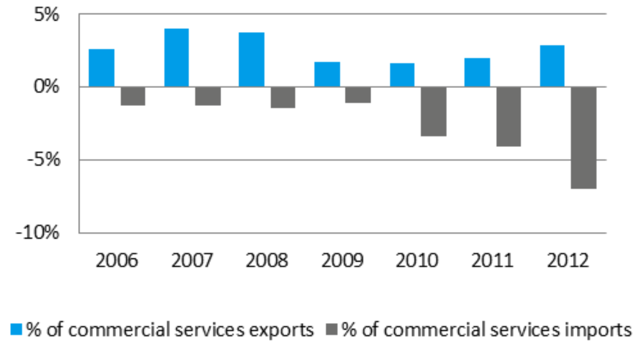
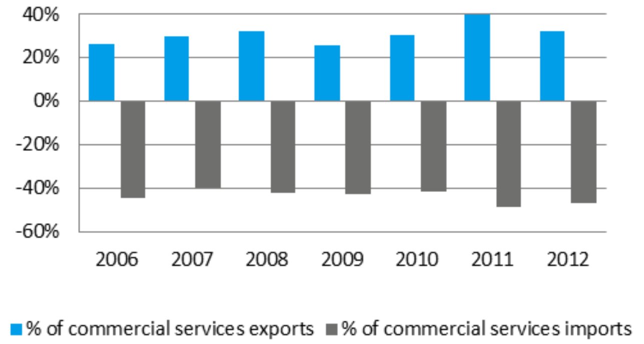


Figure 4. Transport services share in services trade



Between 2008 and 2009 there was a significant fall in the share of transport services in total services exports - from 32% to 26%, while the import share remained more or less static at 42% (see Figure 4).[9]

Tourism

Tourism is a key sector of the economy.. Tourism directly generated 225,000 jobs in 2013 and this number is expected to rise.[13] Foreign-exchange revenue rose from SDR 90 million (IMF special drawing rights)[14] to SDR 229 million between 2001 and 2013.[4] **Travel services are the largest services exports**: in 2012 travel services (a proxy for tourism) accounted for 45% of services exports worth US$ 494 million (see Figure 5).[9]

In 2010, the "Vanilla Islands initiative" was born with the idea to unite the seven Indian Ocean islands – Comoros, Réunion, Madagascar, Maldives, Mayotte, Mauritius and Seychelles – under one tourism brand. This led 3 years later to the formation of the Vanilla Islands Tourism Organization, backed by member governments and supported by the UN World Tourism Organization (UNWTO).

However, Madagascar's political crisis slowed tourism development down. International tourist arrivals fell 56% between 2008 and 2009. Tourism is now recovering steadily and 256,000 international tourist arrivals were recorded in 2012.[5]

FOREIGN DIRECT INVESTMENT (FDI)

Inflows of FDI were increasing steadily until 2008. But political turmoil and economic crisis threatened investment in 2009. This led to a 31% drop in FDI between 2008 and 2010. Annual inflows have subsequently stabilised around US$ 800 million, edging upwards to US$ 837 million in 2013 (see Figure 6). [5]

The major sector receiving FDI is extractive industries, followed by manufacturing, oil distribution, construction and public works, and telecommunications.[11] Among the leading investors are United Kingdom, Canada, France, United States, Germany, Japan, India, Bahrain and Mauritius.[15]

With a ranking of 163rd out of 189 countries in the World Bank Ease of Doing Business index 2014, the business environment acts to discourage foreign investment, as does political unrest and limited infrastructure.[16]

Figure 5. Travel services share in services trade

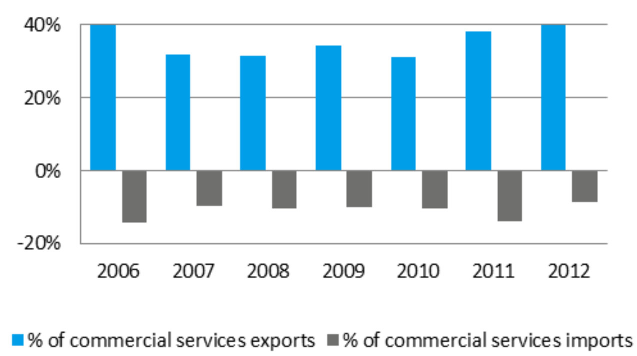
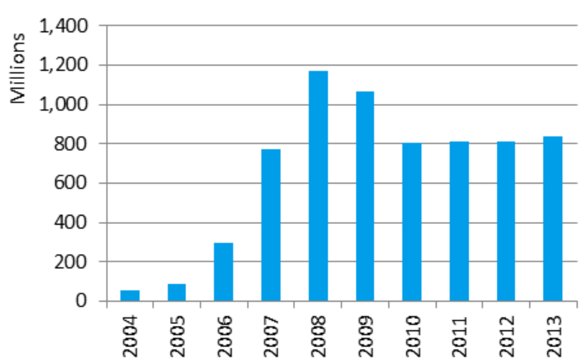


Figure 6. FDI net inflows



FOOTNOTES / SOURCES

1. The services percentage of industry value added includes construction and utilities.
2. All trade data is for commercial services. Data for all figures derived from Trade Map (ITC, UNCTAD, WTO joint dataset).
3. Key data derived from: UN statistics division – National Accounts Official Country Data, ILOSTAT – LFS (Enquête Nationale sur l'Emploi et le Secteur Informel), WTO Trade Profile, ITC Trade Map.
4. African Development Bank - African Economic Outlook, Madagascar (2014).
5. World Bank - World Development Indicators.
6. World Bank – Global Economic Prospects.
7. UN statistics division – National Accounts Official Country Data.
8. ILOSTAT – LFS (Enquête Nationale sur l'Emploi et le Secteur Informel).
9. ITC Trade Map.
10. ITU, Country Profile, Madagascar (2013).
11. KPMG Africa Region 2012/2013, Country profile, Madagascar (2014).
12. CIA Factbook, Madagascar.
13. World Travel and Tourism Council. Travel and Tourism, Economic Impact, Madagascar (2014).
14. The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies. With a general SDR allocation that took effect on August 28, 2009 and a special allocation on September 9, 2009, the amount of SDRs increased from SDR 21.4 billion to around SDR 204 billion (equivalent to about $309 billion, converted using the rate of September 4, 2014). Available online at: http://www.imf.org/external/np/exr/facts/sdr.htm
15. COMESA Regional Investment Agency.
16. World Bank Group – Doing Business Index, June 2014.

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