



**CRAAD-OI**  
Centre de Recherches et d'Appui pour les  
Alternatives de Développement - Océan Indien

**RSCDA-IO**  
Research and Support Center for  
Development Alternatives - Indian Ocean

# Opportunities and challenges in the textiles and apparel sector in Madagascar over the next decade.

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# Madagascar and AGOA

- From 2000 to 2008, Madagascar used to be one the major exporter of apparel to the US, along with Lesotho, Kenya and Malawi.
- In 2007, 99 % of the total exports under AGOA preferences were composed of articles of apparel and clothing, and the country had greatly benefited from the Third Country Fabric Provision (TCFP), so we welcome the reconduction of this special rule under the AGOA extension;
- The negative impact of the end of the Multi-Fiber Agreement in 2005 on Madagascar's exports of textiles and apparel to the US was mitigated by the fact that several firms gained preferred supplier status with some major US importers, so that Madagascar was the second supplier in textiles under AGOA behind Lesotho.
- In 2009, because of the political crisis, Madagascar was suspended from AGOA, with destructive impacts on the apparel industries where 30,000 jobs were lost. However, many apparel companies were able to have access to other markets such as South Africa and the European Union.
- Owing to the presidential and legislative elections in 2013, Madagascar was formally reinstated as an AGOA beneficiary country on June 26, 2014, and it is anticipated that its textiles and apparel sector will regain its former status as the leading export sector under AGOA.



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# Opportunities

- The extension of AGOA over the next decade would enable Madagascar to increase the volume of its bilateral trade with the US in textiles and apparel, while diversifying its exports in other sectors.
- For a capital-constrained developing countries like Madagascar, AGOA preferences offer the opportunity to develop its textile and apparel sectors so as to become a first-stage manufacturing industry that serves as a springboard for export-oriented industrialization, as happened with the so-called “Asian tigers” and Mauritius.
- As this is primarily because of its labour intensive production practices, the textiles and apparel industry has the potential to generate much needed employment, especially for women.



# Opportunities (continued)

- The AGOA preferences can also be used to improve the national manufacturing capabilities, by developing the textiles sector and upgrading the lower-skill apparel production which AGOA has spurred into a higher-skill industry (Condon N. and Stern M., 2011) .
- Additionally, the AGOA benefits offer the opportunity for the textiles and apparel firms to move up the more value added parts of the value chain with more dynamic effects on growth, and more potential for economic diversification.
- In terms of regional integration, the AGOA can foster the development of inter and intra-regional linkages between the textiles and apparel sectors, through the supply of raw materials from the neighbouring countries in SADC and COMESA, which would also reduce the transaction costs.



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# Challenges

- One of the key challenge is how Madagascar can better utilize the AGOA benefits. Studies suggest that even among some countries that do make significant use of the AGOA preferences, “AGOA apparel production is concentrated in the lowest skill tasks with little knowledge transfer to local workers and that the global competitiveness of AGOA exporters still depends on their preferential treatment” (Edwards L. and Lawrence R. Z., 2010)
- Another key challenge is the erosion of AGOA preferences, which implies that in the mid and longer term « it’s unclear whether the economic advantages of AGOA will still exist for African countries” (USAID EATIH 2015), including Madagascar.
- The development of the textile industry is also an important challenge, as backward vertical integration appears to be critical to the sustainability and competitiveness of the textiles and apparel value chain in Madagascar.



# Challenges (cont'd)

- **Production constraints**
  - **Raw materials and inputs supply problem:** Madagascar produces cotton but 75% of the needs in cotton and intermediate inputs in the sector are imported, representing a value of 140 million Euros/ year (2008).
  - **Lack of qualified workers at all levels of the production chain,** namely middle managers and supervisory managers, engineers specialized in fiber and textile, in market technical assistance, in textile design and in market analysis . In particular, there is a critical lack of training on US apparel technical standards, which are very strict.
- **Logistical constraints resulting in high transaction costs :** problems of energy supply, tracking of goods and transportation (no direct maritime link with the US. The only alternative is air freight, but it is costly)
- **Lack of information** of exporters and trade services on the administrative procedures of export under AGOA
- **Financial constraints :** textiles and apparel firms have to ensure a large volume storage of raw materials , which requires important cash flow. Most of them have to deal with financial problems in a context where access to bank credit is quite difficult



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# Recommendations

## **In terms of production and non-tariff barriers to trade**

- An integrated and comprehensive support strategy with time-bound commitments for implementation should be developed in order to remove all the constraints that hinder the full enjoyment of the AGOA benefits, as well as the productivity and competitiveness of Malagasy firms.
- In particular, this support strategy should aim at
  - providing assistance to trade facilitation, access to finance and trade-related infrastructure in order to enable connectivity of Malagasy firms to the textiles and apparel value chains ;
  - the establishment of a training structure that is adapted to the specific needs of traders in order to increase their skill level and competitiveness.



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# Recommendations (cont'd)

## In terms of the strategic aspects of AGOA related to economic governance and investment issues

- Through the required eligibility criteria for the program, the US maintains some influence over the political and economic structure of the beneficiary countries.
- Beyond the trade-related aspects of the AGOA, these strategic aspects have become more important in the face of increased competition from China and other emerging economies that are strengthening their trade and economic relations with Africa, including Madagascar.
- The AGOA should not be used by the US as a bargaining chip to counter the increasing competition with other trading powers such as the European Union and China.
- The US influence over the political and economic structure of Madagascar through the AGOA eligibility criteria should not be used to prevent Madagascar from taking the necessary policy and regulatory measures to ensure the development of its infant industries and manufacturing sector.
- On the contrary, the US should support the current efforts of the Malagasy civil society to promote an investment regime based on the principles of human rights and sustainable development.





# Recommendations (cont'd)

## **In relation to the economic development and human rights aspects**

- The assessment of the economic impacts of AGOA should not focus narrowly on the volumes of exports and imports and trade balances. Most importantly, such an assessment should look at the impacts on the overall development and competitiveness of the textiles and apparel sector.
- More generally, it is critically important to consider the implications of all the eligibility criteria from a development and human rights perspective.
- In this regard, we will like to recommend that the call from the US Congress and other stakeholders for a more reciprocal two-way trade agreement with AGOA beneficiary countries (CRS 2014) should also apply in relation to strategic issues such as the protection of intellectual property rights, which must also apply to the protection of indigenous rights on biological resources against biopiracy from multinational corporations based in the US.



## Recommendations (cont'd)

- As civil society, we express our deepest appreciation of the public transparency and participation provision that is currently included in the AGOA Extension and Enhancement Act of 2015.
- What we see as a key opportunity offered by the AGOA in the next decade is for the US to remain true to its commitment to democracy and human rights, and to support the call of the Malagasy civil society for more democratic and transparent AGOA decision-making processes.
- In particular, we call on all AGOA stakeholders to respect the right to participation of the civil society in the AGOA discussions, as well as its right to information on the current status of the agreement on investment and intellectual property rights between the US and Madagascar.