



Cotton - Textile - Apparel

Value Chain Report Madagascar

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GLOSSARY OF ABBREVIATIONS

ACP	African, Caribbean and Pacific States
AGOA	Africa Growth and Opportunity Act
CDRC	Corporate Debt Restructuring Committee
CET	Common External Tariff
CFDT	Compagnie Française de Développement des Textiles
CMT	Compagnie Mauricienne de Textile Ltd
COMESA	Common Market for Eastern & Southern Africa
EAC	East Africa Community
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FTA	Free trade area
IOC	Indian Ocean Commission
IVTB	Industrial and Vocational Training Board
JEC	Joint Economic Council
MFN	Most favoured nation
PICT	Policy Intervention Committee on Textile
RATES	Regional Agricultural Trade Expansion Support Programme
SADC	Southern African Development Community
TEST	Textile Emergency Support Team
WTO	World Trade Organisation

EXECUTIVE SUMMARY

The development of textile and clothing as a major export sector in Madagascar has been made possible by the introduction of the EPZ in the late 80's. Development in the 90's came mainly from exports to the EU. During the last few years, exports have essentially been driven by opportunities offered under AGOA, which enables Malagasy clothing firms to benefit from quota and duty free exports of products manufactured from third country fabrics into the US market.

Madagascar's integrated cotton textile industry and the abundant land and human resources it possesses are considered as a key asset to elevate the country as a major player in the textile trade. The country does have infrastructural constraints, like all LDCs, which tend to affect investment projects. But this is not seen as an insurmountable problem considering the magnitude of growth it has registered and the amount of foreign investments it has been able to attract during the few years before the political crisis in 2002. The calibre of investors that have located in Madagascar is another factor supporting this positive view. Over two years have passed since the international community recognized the administration of President Ravalomanana as the legitimate government of Madagascar. Now, Madagascar appears to be stabilized. Business is on the increase. In 2003, Madagascar was the fourth largest exporter of clothing to the U.S. market in terms of volume and the fourth largest in terms of value within AGOA. (Cf. USITC). Furthermore, it is believed that textile is the economic sector that is able to alleviate poverty level the most rapidly in the urban as well as the rural area at the same time.

But the ambitions concerning the development of textile should also be gauged against economic reality. One major constraint Madagascar will have to face is in fact, time. With a half-year countdown before the abolition of quotas, many investors will most likely wish to hold on with investment plans until signs about the future become more comprehensible. Heavy investments in textile manufacturing are impeded by fundamental factors that are related to political stability history, investment guarantee and factor costs. Unlike garment manufacturing, Madagascar's labor wage differential with other countries does not result necessarily in production cost reductions. For one, the share of labor cost is smaller, and, secondly due to the high technical requirements of functions, training is lengthy and heavy expatriate costs will have to be borne before local personnel is trained.

Madagascar must work actively to convince the world market that it is committed to expansion of its textiles sector. First, the world market needs to know that Madagascar's textile and clothing is working to increase its integration with African suppliers of lint, yarn, and fabric, in order to prepare to meet AGOA's requirements after expiration of the Special Rule. In addition, the world market needs to see that Madagascar is taking steps to improve the competitiveness of its cotton-textiles-clothing sector through improved integration with suppliers and final customers.

With respect to the first point, elements of a plan to increase Malagasy firms' integration with African suppliers of raw materials might include:

- ***Privatization of a significant share of HASYMA*** in order to reinvigorate raw cotton production in Madagascar (under way).
- ***Rapid implementation of an aggressive research, extension, input supply, marketing, and investment campaign*** by the new majority shareholder of HASYMA to make cotton an attractive option once again for peasant farmers, and thus to expand production.
- ***Market development assistance to Malagasy textile and clothing companies*** to develop commercial relations with other African suppliers of lint, yarn, and fabric.
- ***Elaboration of a promotion plan to attract foreign investment*** in expanded spinning, weaving, knitting, dyeing capacity in Madagascar.
- ***Establishment of a modern workforce development program:*** Workforce development in the textiles sector should address the skills and training needs of middle- and high-skilled textile/clothing sector workers, in order to help Malagasy participate more fully in the benefits of expanded textiles activity.
- ***Implementation by government of pro-market policies in the areas of***
 - ***Institutions*** (e.g. customs modernization),
 - ***Trade rules*** (e.g. inspection),
 - ***Taxation***, and
 - ***Infrastructure development*** (e.g. priority rail line modernization, port modernization, reduction in electricity costs) to ensure that Madagascar is competitive in terms of competitive unit costs, sufficient volumes that can be delivered to world markets, and lead times that are as short as possible.

The important progress that is already being made by the government on these issues should be publicized as visibly as possible in the global trade press.

- ***Diversification***

Garment producers in Madagascar should take the opportunity to consider diversifying into synthetic apparel exports (including poly-cotton) in order to maximize post-2004 tariff preferences. While diversification presents one strategic option to help apparel producers in Madagascar along the path to long term sustainable export growth, it also presents a challenge. All countries and industries have inherent strengths and comparative advantages.

- ***A cluster development strategy***

Madagascar currently supports three key elements of a vertical textiles chain, i.e. seed cotton production and ginning, spinning and weaving/spinning and knitting, and garment assembly. Suppliers of logistics and energy currently support these. Professional associations that actively represent the interests of producers and logistics companies include both the GEM (Madagascar's Enterprise Association) and the GEFP (Association of Duty-Free Enterprises and Partners).

While the existence of these elements is important, Madagascar does not yet have a fully developed textiles "cluster." The availability of key factors such as skilled labour and

infrastructure, the degree to which clear signals are given about what consumers are looking for, the presence of globally competitive supplier industries such as machinery and trims manufacturers, and the presence of a corporate culture, style of management, and competitive market environment that promotes innovation and global perspective – determine the extent to which a cluster will succeed internationally or not. In the longer run, Madagascar’s cotton-textiles-clothing value-chain will need the support of a more fully developed cluster to succeed.

1.0 INTRODUCTION

1.1 Purpose of Assignment

The Regional Agricultural Trade Expansion Support (RATES) Programme funded by the United States Agency for International Development (USAID) Regional Office (REDSO) and covers parts of Eastern, Central and Southern Africa. The Primary focus of RATES is to promote market access by addressing constraints related to trade policy and regulatory framework, practice and procedures for enforcement of the policies and regulations and market information on agricultural commodities at the regional level.

Existing evidence for the period 1997 -2002 shows very little intra – regional trade on cotton and textiles and substantial imports of the same from extra-regional sources. The region has demonstrated capacity of filling in the gap currently being serviced by extra-regional imports. This capacity is manifested in the region’s extra – regional exports of lint and to some extent yarn.

The imminent end of the Multifibre Agreement as provided for in the WTO Agreement on Cotton and Textiles (ATC) and subsequent end of the quota system on 1 January 2005 is a command for the region to come up with a strategy for development of the sector’s trade. Trade liberalization measures, which have included tariff reduction on intra-regionally sourced products, seem not to have had the desired effects on the sector’s development. This points to the need to identify other possible causes for to the dismal state of the region’s trade in textiles and cotton as an integral part of the process for the development of a trade policy platform for the sector.

The purpose of this assignment is therefore to provide data and information to the RATES / COMESA / EAC / SADC effort of developing a trade policy framework in support of the regional and extra regional trade in cotton and textiles in Southern and Eastern Africa.

Madagascar is an island nation of 16 million people, located off the southeast coast of sub-Saharan Africa. The development of Textile and Clothing as a major export sector in Madagascar has been made possible by the introduction of the EPZ in the late 80’s. Development in the 90’s came mainly from exports to the EU. During the last few years, exports have essentially been driven by opportunities offered under AGOA, which enables Malagasy clothing firms to benefit from quota and duty free exports of products manufactured from third country fabrics into the US market.

Madagascar’s integrated cotton textile industry and the abundant land and human resources it possesses are considered as a key asset to elevate the country as a major player in the textile trade. The country does have infrastructure constraints, like all LDCs, which tend to affect investment projects. But this is not seen as an insurmountable problem considering the magnitude of growth it has registered and the amount of foreign investments it has been able to attract during the few years before the political crisis in 2002. The calibre of investors that have delocalised in Madagascar is another factor supporting this positive view. MAST Industries, a subsidiary of one of the largest clothing groups in the USA controlling a network

of more than 400 retail outlets, entered in partnership in a clothing production venture with COTONA in 2001. GAP Inc, another major US player in clothing, set up a buying office in Madagascar in 2001. Furthermore, it is believed that textile is the economic sector that is able to alleviate the poverty level the most rapidly in the urban as well as the rural area at the same time.

The origins of the Madagascan apparel export industry are intertwined with those of Mauritius. The existence of an export processing institutional arrangement attracted investors from Mauritius, as the price of labour began to rise following Mauritius' successful industrialization in the 1970s and 80s, as well as other countries. It also enabled Madagascar-based firms to take quick advantage of new market opportunities offered by the Africa Growth and Opportunity Act (AGOA), passed in October 2000. A second wave of investment seems to have come in large part from Mauritius, but also from large Asian apparel producers, principally from Hong Kong and China, Singapore and Malaysia. It has been fuelled by a third wave of investors from the Middle East, Dubai, Saudi Arabia, UAE, and Pakistan that are primarily establishing very large CMT factories, each employing more than a thousand people, and capitalizing on the recent African Growth and Opportunity Act (AGOA). The latest wave of potential investors appears to be from Sri Lanka and India. The majority of garment manufacturing companies are foreign-owned. There are, however, also a number of locally owned companies. In 2001, Madagascar was the third largest exporter of clothing to the U.S. market in terms of volume and the fourth largest in terms of value. Strong growth of the EPZ sector, whose value of exports rose by 8% in 2001, contributed to extremely favourable conditions in the external sector in that year.

However, a six-month crisis of political transition cost the economy 12% of its GDP in 2002. Over two years have passed since the international community recognized the administration of President Ravalomanana as the legitimate government of Madagascar. Now, Madagascar appears to be stabilized. Business is on the increase. Signs are favourable that Madagascar's garment export industry is once again gearing up for increased activity. A number of companies interviewed indicated that their employment and production levels are up, after the 2002 crisis. A few even indicated that they are operating at levels that exceed pre-crisis levels. Marketing agents are actively seeking product from Madagascar. As a result, logistics firms such as freight forwarders, air cargo, and sea freight companies have made new investments in warehouse and air/sea port handling capacity to handle expected increases in production.

Madagascar exports mostly clothing to the US and the EU. In 2003, Madagascar was the fourth largest exporter of clothing to the U.S. market in terms of volume and the fourth largest in terms of value (Cf. USITC).

Table 1: Exchange rates US\$ to Madagascan Francs (MGF per US\$1):

1998	1999	2000	2001	2002	2003
5,441	6,284	6,767	6,588	6,832	6,191

2.0 SUPPLY AND DEMAND ANALYSIS

2.1. Production trends in the cotton and textile sector

Seed cotton

Malagasy cotton farmers depend to a large extent on HASYMA (the Madagascar Cotton Company) for supplies of seed and chemical inputs, as well as for marketing outlets for their harvest. Seed cotton production in Madagascar has been steadily decreasing over the past years. Production dropped from 38,592 T in 1998 to 11,354 T in 2003. Seed cotton yield also decreased in the same period, as shown in the table below (table 2):

Table 2: Trend of seed cotton production in Madagascar

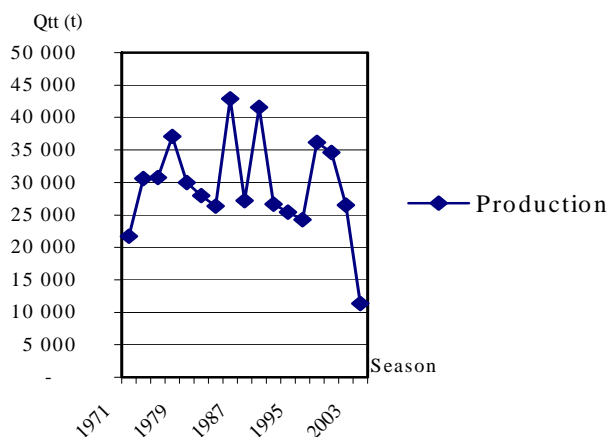
Season	Yield (t/ha)	Surface (ha)	Production (t)
1998	1,142	33,792	38,592
1999	0,984	35,189	34,625
2000	0,959	28,553	27,369
2001	0,936	28,345	26,518
2002	0,674	12,102	8,162
2003	0,763	14,882	11,354
2004	0,857	16,564	14,200

Source: HASYMA

From the 1970's onwards, seed cotton production figures varied widely between the years with a fluctuation of 40%.

Over the last twenty years, Madagascar has produced between 20,000 and 40,000 tons of seed cotton per year (figure 1), with average production around 30,000 tons. However, seed cotton production is now in crisis (see below) and production in 2003 was less than 11,500 tons of seed cotton. Madagascar produces largely two main varieties, D388/8 (29-31 mm length staple) and Guazuncho (28-30 mm length staple).

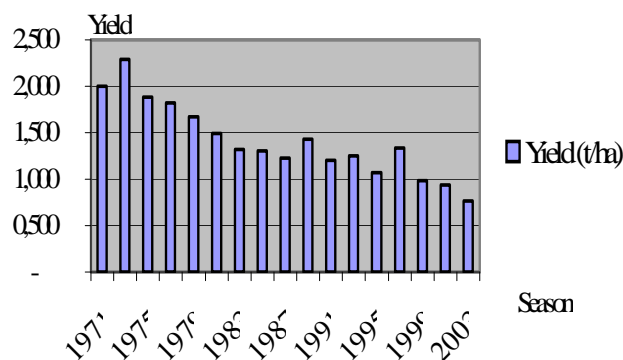
Figure 1: Evolution of seed cotton production in Madagascar



Source: HASYMA

Seed cotton yield continued to drop despite the fluctuation (figure 2). Yields at the national level average about one ton per hectare. However, this masks distinct differences in yields between the two farming systems that are found in Madagascar. In the northwest, around Mahajanga, flood recession agriculture predominates. Most of Madagascar’s large-scale farms are concentrated in this region. Seed cotton in the northwest is planted in March on alluvial soils after the rainy season, as the floodwaters recede. Yields in the northwest are 1.6-2 tons per hectare, or even higher. Costs of production are generally higher in the northwest, too, since mechanization is relied on to a greater extent to work the heavy soils. In the southwest, around Toliary, cotton production is rain fed, planted in November and harvested in June. Some supplemental irrigation may be applied. Yields are lower, averaging 0.8 tons per hectare.

Figure 2: Evolution of seed cotton yield in Madagascar



Source: HASYMA

Ten years ago, as much as 70% of Madagascar's cotton was grown in the northwest. More recently, nearly 60% of the national crop has been grown in the south. Also, over time average national output has declined substantially. This shift has been due, in part, to the inroads made into the farming system by other cash crops. For instance, industrial tobacco production is said to compete quite favourably. One observer noted that a farmer could earn as much from one-tenth of a hectare planted to tobacco production as he/she can from an entire hectare under cotton. In addition, cotton competes with farmers' food production requirements. Farmers in the northwest have been more active in seeking new crops. If lands previously seeded to cotton could be recuperated, including along several of Madagascar's west coast river systems, HASYMA (the Madagascar Cotton Company) officials estimate that annual seed cotton production of 63,000 tons per year is feasible.

COTONA, the textile group located in Antsirabe, have also promoted the production of extra long-staple Pima cotton varieties in southwest Madagascar with quite favourable results. Pima cotton is planted in December, grown under irrigated conditions, and matured during the hot summer months. Yields are about 2 tons per hectare, and lint length is around 37 mm.¹ Present production is only about 140 tons in Madagascar. In 2003, COTONA imported an additional 360 tons from Israel.

Cotton lint

Following the seed cotton production trend, cotton lint production has been steadily decreasing since 1998 (table 3).

Table 3: Cotton lint production in Madagascar

Season	(t) Production
1998	15,437
1999	13,850
2000	10,948
2001	10,607
2002	3,265
2003	4,542
2004	5,680

Source: HASYMA

Yarn

There are two spinning firms in Madagascar : COTONA and SOMACOU. COTONA is the main spinning company, producing around 85 % of local products (table 4). The 2002 fall resulted from the political crisis.

¹ The reference is Egypt with 40-42 mm. Pima staple length in the U.S. is 36-37 mm, while Israeli producers achieve 30-35 mm.

Table 4: COTONA and SOMACOU cotton yarn production

Season	(t) Quantity	Value (millions US\$)
1998	6,184	10.98
1999	nda	nda
2000	5,726	11.15
2001	4,776	10.08
2002	1,727	4.89
2003	3,743	7.89
2004	5,103	16.83

Source : COTONA and SOMACOU

Woven fabric

COTONA is the only textile company producing woven cotton fabric for clothing companies in Madagascar. Its production continued to decrease until 2002. It started to rise in 2003 with a better forecast for the current year 2004 (table 5).

Table 5: COTONA woven fabrics production

Season	(t) Quantity	Value (millions US\$)
1998	22,470	6.48
1999	19,398	6.36
2000	18,167	6.07
2001	15,455	7.30
2002	4,140	4.68
2003	9,349	10.04
2004	12,018	12.07

Source : COTONA

Knitted fabric

Data not available for knitted fabric.

Cotton and textiles produced under Export Processing Zones

Malagasy cotton farmers depend to a large extent on HASYMA (the Madagascar Cotton Company) for supplies of seed and chemical inputs, as well as for marketing outlets for their harvest. As HASYMA is not an EPZ firm there is no **cotton seed** produced under the EPZ scheme. Likewise HASYMA is the only ginning company so there is no **cotton lint** produced under the EPZ scheme. COTONA is the only EPZ firm producing **yarn**. Table 6 presents its production from 1998 till 2003 with the forecast to 2004.

Table 6: COTONA yarn production

Season	(t) Quantity
1998	5,822
1999	6,143
2000	5,561
2001	4,538
2002	1,493
2003	3,425
2004	4,803

Source : COTONA

Also, COTONA is the only textile company producing woven **cotton fabric** for clothing firms in Madagascar. Its production is already shown previously in table 4. Concerning **apparel products**, about 95% of exports are produced by EPZ firms. And the total export (in volume) is stated as following in Table 7:

Table 7: Apparel exports from Madagascar from 1998 till 2003

Season	(t) Quantity
1998	6,618
1999	9,237
2000	12,152
2001	22,282
2002	5,871
2003	10,091

Source : Malagasy Customs Office

2.2 Ginning sector (cotton lint)

Role of HASYMA

In Madagascar, as is typical in agro-industry where processing facilities are concentrated, one or a limited number of processing firms coordinates production, collection, and first-stage processing of seed cotton. Malagasy cotton farmers depend to a large extent on HASYMA (the Madagascar Cotton Company) for supplies of seed and chemical inputs, as well as for marketing outlets for their harvest. This system is common in other francophone African countries, where the French public company Dagrís (formerly, the *Compagnie Française de Développement des Textiles* or CFDT) has managed similar systems.²

Large agro-industrial processors in other industries play the role of production coordinator as well. For example, in Mexico, large, private agro-industrial groups such as MASECA and MINSA coordinate the production of white maize for processing into tortillas. They work with large-scale contract farmers, distributing seed varieties, advising on seeding dates and cultivation practices, and fixing market contracts. Similarly, HASYMA is responsible for varietals research, undertaken in conjunction with the national agronomic research institute FOFIFA, and the procurement of fertilizers, pesticides, and equipment on behalf of local farmers.

CFDT owned HASYMA until 1979. Dagrís is currently a 38% shareholder in HASYMA. Previously, two private Malagasy companies (DRAMCO and CCB) also ran their own production operations in the northwest of the country, but contracted for ginning through HASYMA. Thus, farmers enjoyed some degree of ex-field price competition in the market. However, faced with declining profitability, the two private production/buying operations ceased several years ago. The privatization process of HASYMA has been launched.

Ginning Capacity

HASYMA owns all five of the country's large-scale ginning facilities, with a total ginning capacity of 60,000 tons of seed cotton. Currently, installed capacity is well above actual requirements. Only about 20% is used.

Ginning out turn

Average ginning out turn (GOT) is about 40%, which compares favourably with world norms.

Source of seed cotton

There are no imports of seed cotton.

² For further information on DAGRIS' strategy, see the interview with Dagrís Director-General Gilles Peltier in "Coton: Dagrís en quête de prises de participations majoritaires," *Marchés Tropicaux*, 11 juillet 2003, www.dagris.fr.

Production of cotton lint

The volume of cotton lint produced from 1998 till 2003 is already provided in table 3, but no data is available for its value at this point in time.

Export and import

The quantities of cotton lint imported from ESA region are very low (Table 8). Imports from ESA region started only a few years ago. Lint exports were significant before the crisis period in 2002 (table 9). A recovery is observed in 2003.

Table 8: Import of cotton lint to Madagascar (kg)

Regions	1998	1999	2000	2001	2002	2003
COMESA	0	0	20	0	0	0
SADC	0	0	0	37	0	44
Others	27 410	7 470	1 201	21	131	41 271

Source: Malagasy Customs Office

Table 9: Export of cotton lint from Madagascar (kg)

Regions	1998	1999	2000	2001	2002	2003
COMESA	0	0	0	0	412 516	1 187 962
SADC	1 966 081	300 000	0	0	412 516	1 678 446
Others	5 996 202	8 494 498	4 337 394	3 452 578	3 137 422	3 214 809

Source : Malagasy Customs Office

2.3 Policy, investment incentives and issues

Costs of Cotton Production in Madagascar

Madagascar's farm-level costs of production vary significantly between irrigated production in Toliara and flood recession production in Mahajanga. The latter is about twice as expensive per hectare as the former. However, yields are also about twice as high in the northwest (Mahajanga), compared with the southwest (Toliara); so in 2003 the per kilogram financial costs of seed cotton production was about the same, around 1400-1500 MGF per kilogram.³

The production of cotton lint is also profitable from an economic perspective. In 2003, estimates of Ginnery-Level Economic Profitability were made (cf. Salinger & Al. 2003). The world price for cotton lint, adjusted to the ex-ginnery level in Madagascar, was 7,920 MGF/kg lint, based on a world lint price of 60 U.S. cents per pound and an exchange rate of 6000 MGF/\$. The world price equivalent also assumed an import-substitution scenario, given that Madagascar is a net importer of cotton lint or cotton-based fabrics. Economic costs of production were estimated by adjusting for taxes included in transport costs and by including the cost of labor (valued at 6,000 MGF/labor-day) (table 10). Positive economic profitability translates into a coefficient of comparative advantage that is less than 1.00, indicating that Madagascar uses scarce land and labor profitably by producing cotton domestically rather than importing. It may be, however, that other crops would yield a higher economic

³ Farm- and ginnery-level production costs were provided by HASYMA and a union of producers in the northwest.

profitability (and thus lower domestic resource cost coefficient) per hectare of land or per labor-day than seed cotton.

Table 10: Estimates of Ginnery-Level Economic Profitability in 2003

		Toliar a	Mahajanga HASYMA	Mahajanga Prod. Union
World price equivalent	MGF/kg cotton fibre	7,920	7,920	7,920
Minus economic costs of production	MGF/kg cotton fibre	6,892	6,699	5,934
Economic profitability	MGF/kg cotton fibre	1,028	1,221	1,986

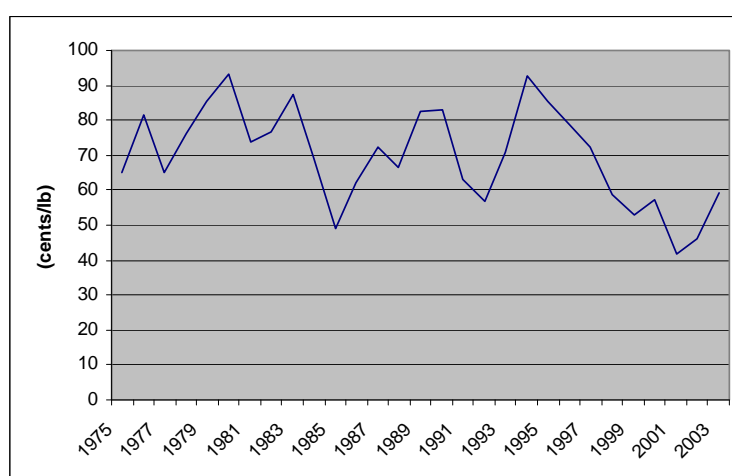
Source: Salinger & Al. 2003

Cotton Prices on World Markets and in Madagascar and HASYMA's financial difficulties

As evidenced from the plummeting level of seed cotton production in 2002 to just over 8,000 tons, the raw material end of Madagascar's cotton-textiles-clothing sector is in crisis. The roots of this crisis can be found in financial difficulties that have threatened HASYMA's sustainability for the last three years. The crisis cannot be understood without reference to the international market for lint.

Between 1975 and 1998, world cotton lint prices tended to fluctuate between 50 and 90 U.S. cents per pound (figure 3). The cotton "A" Index, measured CIF Northern Europe, is used by HASYMA as the basis for negotiating export prices. However, in 1999, due to the build-up of global stocks, lint prices plummeted to historic lows, grazing just below 40 cents per pound in the latter months of 2001. As in 2003, the world lint price recovered substantially and was above 60 cents per pound.

Figure 3: World Cotton Lint Prices



Source: U.S. Department of Agriculture, Cotton & Wool Situation & Outlook reports

Note: Prices depicted are A Index, CIF Northern Europe.

Lint sales

Between 1995 and 2001, HASYMA sold about half of its ginned lint to local clients and half on the world market (table 11). About three-quarters of domestic sales have been to COTONA. Madagascar's average level of exports of 4800 tons is equivalent to 22,022,480-pound bales. By comparison, world cotton lint trade in 2002/03 was about 30 million 480-pound bales, according to the Economic Research Service of the U.S. Department of Agriculture.

Table 11: Volume of Madagascar Cotton Lint Sales (tons)

Season	Domestic sales			Exports	Total
	COTONA	SOMACOU	Others		
1998	5 119,8	807,1	619,9	6 322,5	12 869,3
1999	5 076,1	614,0	554,8	5 755,5	12 000,4
2000	3 144,5	480,3	507,0	3 966,1	8 097,9
2001	2 285,6	491,3	373,2	4 892,3	8 042,5
2002	394,5	10,5	-	2 825,8	3 230,8
2003	934,5	289,7	-	2 056,3	3 280,4
2004	dna	dna	dna	dna	dna

Source: HASYMA

For companies like HASYMA that fix their buying contracts with local producers at the beginning of production seasons, such precipitous world price drops can spell disaster for financial accounts. HASYMA fixes its producer prices for the coming season in October as a function of world market levels. In 2001, it raised its producer price, most likely in response to the previous year's increase in the Table 12. World prices continued to fall in 2001, yet HASYMA did not lower the producer price until the 2002 season. When the producer price finally was lowered, the disincentive led to the withdrawal of many producers from cotton production. Previously, a cotton stabilization fund had provided some level of financial resources to smooth producer prices and therefore protect against such fluctuations, but by 2001 these resources had dried up. Emergency financing was provided in 2002 to HASYMA under a World Bank Emergency Economic Recovery Credit (IMF 2002). The assistance was made conditional on the privatization of HASYMA and on an increase in seed cotton production volumes.

Table 12: Producer prices of seed cotton (1st quality)

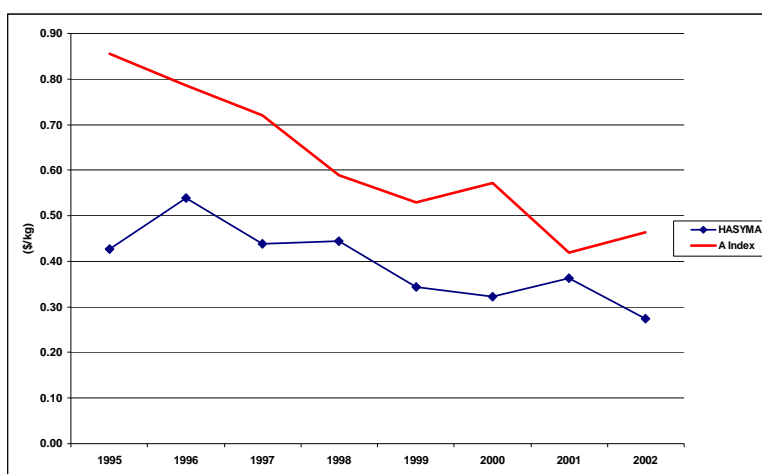
Season	Producer prices (MGF/KG)	Producer prices (US\$/KG)
1998	2 125	0.34
1999	1 900	0.31
2000	1 925	0.31
2001	2 100	0.34
2002	1 650	0.27
2003	2 000	0.32
2004	2 050	0.33

Source: HASYMA

Figure 4 depicts the trends of both world and Madagascar prices. The HASYMA price curve is the seed cotton producer price, converted into dollars at annual average exchange rates and converted into lint equivalent using a 40% ginning ratio. It is a farm-level price, i.e. ginning

and marketing costs have *not* been added to bring it to FOB equivalent.⁴ The world lint price is the cotton A Index, CIF Northern Europe. Thus, normally there should be a margin between the two curves to cover domestic processing, transport, and FOB costs. The fact that the two price lines practically converged in 2001 demonstrates the extent to which HASYMA had not lowered domestic prices sufficiently to account for the plummeting world price. With world prices recovering somewhat in 2002, the margin between domestic and world prices is beginning to be observed once again.

Figure 4: Comparison of HASYMA and World Prices



Sources: HASYMA, USDA/Economic Research Service

As world prices recover, HASYMA raised its purchase price back to 2000 MGF/kg for the 2003 season. However, because of HASYMA's internal financial difficulties, farmers were not paid on time in 2002. The budget available to HASYMA staff to oversee production has also been reduced.

Table 13: Directory of cotton companies

Company	Address	Contacts	Activities	Main products
HASYMA	15 bis, rue P Lumumba Tasaralalana BP 692 Tana 101	Tel.: 22 642 39 Fax: 22 349 58 E-mail: hasyama@dts.mg	- Research and supervision of cotton cultivation - Ginning - Marketing of seed cotton, cotton lint and seed	Cotton lint and seed cotton

Madagascar international code phone number: "261 20"

⁴ Madagascar's 2000/2001 ginning cost was 2,266 FMG/kg fiber.

2.4 Cotton yarn (HS 52.05)

Spinning capacity

There are two spinning firms in Madagascar: COTONA and SOMACOU. COTONA is the main spinning company, producing around 85 % of local products. The total spinning equipment for both firms are shown as following (table 14)

Table 14: Spinning equipment – Unit: spindle

Type of Equipment	Capacity Available	Capacity Used
Spinning Ring	10,888	8,608
Continuous spinning	5,616	4,680
Open End Spinning	1,728	1,391
Winding Frame	350	350
Twister	120	120

Source: COTONA and SOMACOU

Production capacity is not fully utilized for the following reasons:

- Some equipment is out of order (awaiting spare parts),
- Some spinning accessories for idle spindles are worn-out,
- SOMACOU has insufficient orders.

Cotton lint used in spinning firms

Madagascar's total garment exports in 2001 to the U.S. and Europe combined totalled \$429 million. Using figures from the U.S. Department of Commerce, this is estimated to represent about 99 million SME of fabric. Assuming cotton-based garments represent 85% of this volume, Madagascar's pre-crisis garments exports would require a supply of 84 million SME, or 17 thousand tons of cotton fabric. The latter is equivalent to 25 thousand tons of cotton lint.

In addition, the domestic market for cotton-based products, supplied by COTONA and SOMACOU, is estimated to require another 2.5 thousand tons, for a total effective domestic demand of 27.5 thousand tons of cotton lint. The seed cotton equivalent, assuming a 40% ginning ratio, is 69 thousand tons of seed cotton. This is the amount of seed cotton Madagascar would need to produce if all cotton-based exports shipped from Madagascar (2001) were to be manufactured using cotton fabrics produced in Madagascar. This is *not* to suggest that Madagascar should strive to be self-sufficient in cotton lint production. China, India, and Pakistan, all major textile-producing countries, import some lint to complement their domestic seed cotton production. However, it does suggest that there is clearly a domestic market for all the seed cotton that can be produced domestically in Madagascar, and then some.

In addition to constraints on domestically available raw material supply, there are also processing constraints (capacity and technical). A recent development for the spinning mills is the importation of cotton yarn. Malagasy sweater and knitwear manufacturers also import Cotton yarn.

Ratio of cotton lint used

Most cotton lint used in spinning comes from local production as is shown by Table 15. The selection criteria for supply sources are price and quality.

Table 15: *Ratio of cotton lint used in local spinning firms for 2003*

Suppliers	(t) Quantity
Local	1,224.200
ESA	0.044
Others	41.271

Source : Malagasy Customs Office

Type of cotton lint

HASYMA produces only one type of cotton lint classified as "fairly long" - approximately 37 mm. It is noted that SOMACOU does not import any cotton lint, it purchases only from HASYMA. However, COTONA imports some cotton lint from overseas (Table 16).

Table 16: Imports ratio for COTONA cotton lint types

Category of lint	(t) Quantity	Value (millions US\$)
Short	-	-
Fairly long	1,230	2.344
Long	3,420	7.682
Extra Long	320	1.356
Carding Residues	775	1.400

Source: COTONA

Policies and incentives

To allow for the optimization of industrial equipment in terms of quality and productivity; replacement of worn equipment; and the expansion of product range operators suggest the introduction of forms of assistance including financial, commercial and preferential benefits.

Position of exporting local cotton lint

The export of local cotton lint, which is well-known for its good quality, poses a threat to local industries and the national economy. Indeed, the quality of imported lint from Eastern and Southern Africa is low if we consider what is specified in the product descriptions as well as sale contracts. The lint includes impurities, honey and dead fibers.

Issues in sourcing cotton lint

The product descriptions and the sale contracts are often not complied with. If cotton lint is imported, supply fees represent an additional cost of approximately 20% compared with local supply.

Yarn sales issues

It is difficult to comply with sale contracts because of the poor quality of imported materials. The problems encountered by cotton yarn export companies primarily relate to product price and transportation means. Indeed, export prices are not stable due to imbalance in the global market, which is the consequence of production and export subsidies given by developed cotton producing countries (United States, China and some European countries) to their cotton producers. Because of this, their producers can offer very competitive prices to the detriment of countries where cotton farmers do not benefit from such financial aids. In addition, the poor condition of roads and port infrastructures also affects product transportation time (a competitiveness criterion in the global market, along with product quality and price). This situation leads to delay in delivery, which is aggravated by insufficient ship turnarounds. Thus, missing a ship departure will entail a certain delay in product shipment. Additionally, sea transport fees remain high.

Table 17: Directory of spinning firms

Company	Address	Contacts	Activities / Main products
COTONA	Rte d'Ambositra 110 Antsirabe	Hakim Fakira	Spinning, weaving and finishing (spun yarn, unbleached and finished fabrics)
SOMACOU	Rte d' Ambohimanga Ilafy Antananarivo	Jean Michel Malavergne	Spinning, weaving and finishing, covers

2.4 Textile industries

There is no data available on weaving and knitting capacity and on fabric production. The only textile weaver is COTONA and its production of woven fabric is detailed in section 2.1. Fabric supply is very limited, with COTONA being the only major woven fabric supplier (100 percent cotton trouser and shirting fabric) and despite major restructuring and reinvestment, is only able to supply 30 percent of local needs (14 million meters by 2005). In terms of jersey fabrics SAMAF and Festival are the two local producers. However, with only six to seven weeks lead time they offer little advantage over fabric imported from India, Pakistan and the Far East where better quality fabrics can be imported at lower cost.

Cotton is a key input into the textile industry in Madagascar as elsewhere. However, other fibre-based products are obviously also a part of Madagascar's garment production. Madagascar firms produce cashmere and wool knit sweaters, as well as some MMF- and silk-based garments. Madagascar's imports of intermediate textile inputs are reported below (Table 18). Cotton-based garments represent 63% of all garments exported from Madagascar in 2001, measured in value terms, and closer to 85% in total volume.

Table 18: Madagascar Imports of Silk, Wool, Cotton, and MMF Products, 2001

(Thousand US\$)	Silk	Wool	Cotton	Man-Made Fibbers	Total
Waste			12	154	166
Fibre		15	1,246	262	1,523
Thread			439	242	681
Yarn	38	48,297	6,453	2,483	57,271
Fabric	17,579	1,946	39,893	6,924	66,342
Total	17,617	50,258	48,043	10,065	125,983

Source: U.N. COMTRADE database

Certain fabrics (e.g., denim, velour, corduroy, jersey knits) are only produced in limited quantities in Madagascar for the export market. The two most important categories of light- and heavyweight cotton fabric imports into Madagascar are shown in table 19. Mauritian textile mills are by far the largest source of lighter weight cotton fabrics. Heavier weight cotton fabrics, such as twills and denims, are imported from Mauritius, Hong Kong, France, China, South Africa, and an assortment of other countries.

Table 19: Suppliers of Imported Cotton Fabrics to Madagascar, 2001

Country (Thousand US\$)	Light weights		Heavy weights	
	Printed	Yarn-dyed	Twill	Denim
China		44	333	373
France		30	1,627	327
Hong Kong			1,667	1,084
Indonesia				454
Japan				225
Mauritius	1,754	5,073	21	10,171
Philippines				499
South Africa				570
Spain		21	409	13
USA			182	98
Others		112	26	97
Total	1,961	5,133	4,265	13,911

Source: UN COMTRADE database

Supply of yarn

Table 20 below shows the ratio of local and imported yarn used in Madagascar

Table 20: Ratio of local and imported yarn for 2003 (Kilos)

	1998	1999	2000	2001	2002	2003
Local fabrics	6,184,316	nda	5,725,709	4,776,391	1,727,319	3,743,031
ESA	709,678	444,027	594,945	231,661	277,156	183,130
Others	156,948	182,434	349,789	26,667	122,101	17,448

Source : COTONA and Malagasy Customs Office and our calculations

Source of fabric

The table below shows that 45.14% of total fabric used in apparel making was sourced locally, while 39.49% was sourced from the region (mainly Mauritius). Extra regionally sourced fabric only accounted for 15.37% of the total fabric used in the apparel industry in 2003.

Table 21: Source of fabric 2003

Source	Value (millions US\$)	Per of total
Local (Madagascar)	6,762.02	45.14
East and Southern Africa (Region)	5,915.38	39.49
Other countries	2,301.92	15.37
Total	14,979.32	100.00

Source : COTONA

Incentive policy and measures

There is no investment incentive policy or measures that support specifically fabric production. The overall viability of the textile sector in Madagascar is precarious.

On the one hand, the schedules of various trade cooperation schemes that offer favourable export conditions (investors' interests) – such as the AGOA's special rules, and the Cotonou Agreement – include tight accession deadlines, thus just giving to existing operators the time to get themselves ready for "real" competition (without tariff benefits) with quota elimination. On the other hand, the Malagasy textile sector does not present a comparative competitive situation because of the conditions of its environment.

Indeed, the infrastructures available for plantations, processing and transportation are not in good condition as mentioned in the previous section. Moreover, there is no relevant long-term policy that comes under the responsibility of operators and the government. A number of actions (for vertical integration within the sector, for example) should be conducted in order to gain competitive benefits. In the same way, specific financial measures should be taken in order to realize the investments needed.

At present, the principle of a public-private partnership is not respected for lack of consultation. The government establishes regulations that are inappropriate considering actual pressures and requirements for competitiveness in the sector. A complexity of customs procedures and an inconsistency between the ideas put forward by the two parties can be observed. However, the law governing free zones in Madagascar is being rewritten, mainly at the request of the Consortium of Free Zone Enterprises and Partners (GEFP), in consultation with all the parties concerned, in order to improve such regulations.

Yarn supply issues

Concerning the "price" competitiveness of local yarn, local cotton yarn is 40% more expensive than those available in the global market. This situation has considerable effect on the cost price of finished products, and consequently of their selling prices.

As far as imports are concerned, transportation time gets longer due to the requirement related to consolidating minimum order quantities, forcing higher stock holdings. In addition, distribution costs are high.

Suggestions from operators in the sector:

- Privatization of HASYMA (privatization process under way);
- Weaving companies should offer more competitive prices to local knitters, as it is a market that is not fully exploited;
- Creation of a "cotton" label (by taking Peru's *Peruvian Pima Cotton* as an example);
- Development of cotton-based mixed yarns, for example cotton yarn + spandex.

2.5 The Role of Electricity Costs

An important component of total cost in textile milling is energy. The textile sector is the largest industrial consumer of electricity in Madagascar. Electricity typically accounts for about 15% of total costs for a textile manufacturer (yarns, fabrics) and 4-7% for a clothing manufacturer in Madagascar.

Of a total generation capacity of 240 megawatts, half is supplied by less expensive hydropower and half by thermal (both heavy fuel and diesel) generation, the latter through the importation of crude oil. The cost of electricity is rather high in Madagascar. Based on a simulation of industrial consumption of 4500 KWh, total KW rates are 3 Euro cents per KW in South Africa, 5.5 Euro cents per KW in Mauritius, and 7.1 Euro cents per KW in Madagascar.

A 50% reduction in the cost of electricity to the Malagasy textile industry would save 7.5% of fabric cost and an additional 2% savings at the level of the garment cost. In a market where international orders are sometimes decided on margins of just a few U.S. cents per garment, 6.5% of an \$8.00 ex-factory garment price represents a significant cost savings of 52 U.S. cents. This point is important for the competitiveness of Madagascar.

2.6 Density of Local Textiles Market

The density of Madagascar's local textiles market, i.e. an increased number of globally competitive spinning, weaving/knitting, and wet processing operations is important for several reasons. First, clothing firms in Madagascar benefit from a range of alternative textiles suppliers from which to source their fabrics. This can be accessed at present to some extent at the regional level, e.g. in Mauritius and South Africa.

However, the textile mills themselves benefit from having a denser market of mills in-country. The more numerous the number of competitive textile mills in Madagascar, the more capable they are as a group to advocate for textiles-friendly policies. Also, the presence of

more participants at the same stage of the production process brings about a greater density of the supportive businesses that textile firms require, e.g. textile equipment suppliers, parts providers, repair services, etc. Encouraging the presence of a denser network of textile mills also leads to increased workforce specialization, providing more opportunities for skilled textile workers and thus more incentive for workers to pursue specialized training.

Knitwear production in Madagascar is under great duress. Only one industrial group in Antsirabe is operating at high levels of capacity use and producing fabric for clothing exporters. This group has indicated that it would welcome the presence of other textile companies into Madagascar, for many of the reasons listed above.

Madagascar's policy makers should consider how to make the investment environment friendlier and seek support from international financial institutions to encourage new textile industry investment in the country.

Directory of weaving and knitting companies

There are three (3) knitting companies and two (2) weaving companies in Madagascar.

Table 22: Directory of knitting and weaving firms

Firms	Activities	Tel	Fax	E-mail
KDC MCAR/GF CASHEMERE	Knitting	22-467-85 22-467-93	-	gfck@wanadoo.mg
MADAGASCAR KNITWORKS	Knitting	22-588-42	22-588-44	mk@wanadoo.mg
COTONA	Spinning, weaving and printing in dyeing fabrics	-	-	sag@cotona.com
PACO TISSAGE	Weaving	22-304-91	-	gpm@wanadoo.mg
USI KNITWEAR MADAGASCAR LTD	Knitting	-	-	-

Source: GEFP

2.7 Apparel (textile manufacturers)

Current demand of fabric

Madagascar's strength, compared with that of many other African countries, is the presence of investors from foreign clothing manufacturers. This helped Madagascar to realize early benefits from AGOA. However, Madagascar is at risk of these investors departing from Madagascar if certain conditions are not fulfilled. These foreign clothing manufacturers are also quite concerned with marketing Madagascar, as they have to demonstrate their own competitiveness to their home offices.

Investment in the country broke down as follows: the Middle East, 25 percent; Mauritius, 30 percent; Far East (Singapore, China and Hong Kong), 30 percent; France 10 percent; and local investment 5 percent. Approximately 5 percent of the country's clothing companies manufacture for the domestic market, and these are very small companies. Domestic consumption is limited and dominated by imported second-hand clothing. The Malagasy are

well known for their artisan hand skills and hand embroidery. Lace and crochet work are learned from a young age and therefore there is a sizable population skilled in this niche market for hand embroidered and hand smocked children's wear, which is exported primarily to France.

The industry is still centred within two main EPZ industrial areas within Antananarivo, the capital, but is also becoming established in Antsirabe, home of COTONA, the only sizable fabric producer of note. Despite the fact that Antananarivo is ten to twelve hours by a single road from the port in Tamatave, and with daytime container restrictions within the city, there appear to be no plans for clothing manufacturers to locate to the port vicinity. This is due to the fact that the excessive heat and humidity on the coast and the necessity of providing air conditioned factories would outweigh the considerable transport costs currently incurred. With both limited road access and availability of electricity and telecommunications, the choice of other potential industrial locations is limited. Madagascar exports mostly its clothing to the US and the EU. In 2003, Madagascar was the fourth largest exporter of apparel to the U.S. market in terms of volume and the fourth largest in terms of value (Cf. USITC).

Table 23 shows that more than 75 percent of US imports of apparel from Madagascar consist principally of cotton materials while only 60 percent of total US apparel imports are cotton. US imports from Madagascar of apparel consisting chiefly of man-made (synthetic and artificial) fibre has grown particularly rapidly. While Madagascar's exports of cotton products nearly doubled over the 2002 – 2003 period, exports of man-made fibre tripled from a small base of less than 10 percent. These market share and growth trends provide some perspective for evaluating the factors that affect the potential for seeking gains from diversification.

Table 23: *US Imports of Apparel from Madagascar and the World by Textile Fibre Type 2002-2003*

Fibre	From Madagascar				From the World	
	2002		2003		2003	
	Million Dollars	Share	Million Dollars	Share	Million Dollars	Share
Cotton	72.6	81.4	151.6	77.3	36,116.0	59.0
Wool	9.1	10.2	22.9	11.7	3,519.7	5.8
Man-Made	7.5	8.4	21.6	11.0	19,179.8	31.4
Other	0.1	0.1	0.2	0.1	2,349.0	3.8
Total	89.3	100.0	196.0	100.0	61,164.5	100.0

Source: Lojewski & Al. 2004

Table 24 shows market shares of EU import of apparel from Madagascar. In EU, non-cotton products account for approximately half of Madagascar's apparel exports.⁵

Table 24: *EU Imports of Apparel from Madagascar and the World by Textile Fibre Type 2001-2002*

Fibre	Madagascar		World
	2001	2002	2002

⁵ The EU imported 17 million dollars in silk scarves and accessories from Madagascar in 2002.

	Million Dollars	Share	Million Dollars	Share	Million Dollars	Share
Cotton	123.1	51.7	79.2	58.8	22,437.9	47.3
Wool	45.6	19.2	11.8	8.8	2,871.1	6.0
Man-Made	13.1	5.5	9.0	6.6	16,594.1	35.0
Other ^a	56.0	23.5	34.5	25.7	5,469.4	11.5
Total	237.9	100.0	134.6	100.0	47,459.2	100.0

Source: Lojewski & Al. 2004

^a "Other" includes silk and non-wool animal fibres. In 2002, the EU imported nearly 20 million dollars in silk scarves and accessories from Madagascar. EU imports of tops made of non-wool animal fibres were also significant

One of the main purchasers of apparel from Madagascar is Gap, accounting for an estimated 27 percent of all production. Other customers include Liz Claiborne, Costco, Mast Industries, Banana Republic, Eddie Bauer, George Clothing, Tesco, Debenhams, Jumper, Principles, Next, Burtons, Celio, Decathlon, Monoplix, Carrefour, Christian Dior, Chanel, Printemps, Cyrillus, Tartine and Chocolat (France), Hema (Holland), Adler (Germany), and H&M (Sweden).

Fabric supply issues

The choices of supply sources are based on:

- A make or buy policy according to the profit margin obtained in imports compared to the national profit margin;
- Obtaining favourable terms of payment that allow better management of funds.

Madagascar lacks diversified materials (fabrics, accessories and others) both in quality and quantity and cannot satisfy its industrialists' needs. As a consequence, the latter have to import mainly from China where they can find materials at competitive prices, in the quality and quantity required. However, a transportation time from 30 to 45 days is necessary to get supply from China, which affects production planning. Customs clearance procedures may also last several days.

In order to cope with seasons, orders must be placed at least six months prior to delivery. This period includes the export time to forward the goods to customers.

Opportunities of diversification into man-made fibre apparel exports (Including polycotton)

A recent study (Lojewski & Al. 2004) demonstrated the opportunity to diversify into man-made fibre apparel exports (including polycotton), as a strategic option for Madagascar to maximise post-2004 preferential tariff margins.

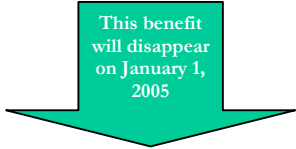
The success of the Malagasy apparel exporters can largely be attributed to the quota shortage in other, main garment supplying countries in Asia. As a result, garment production in Madagascar is concentrated on "hot" or popular quota categories, which are in high demand and for which other countries have only small quotas. With the removal of quotas in 2005 and a free trade in garments, firms in Madagascar need to know about their competitiveness as compared to major competitors.

In Table 20 we have noticed that US imports from Madagascar of apparel consisting chiefly of man-made (synthetic and artificial) fibres has grown rapidly. In Table 21 non-cotton

products account for approximately half of Madagascar's apparel exports to the EU market. These market shares and growth trends provide some perspective for evaluating the factors that affect the potential for seeking gains from diversification.

The US African Growth and Opportunity Act (AGOA) grants Madagascar duty and quota free access to the US market for qualifying apparel. Table 22 makes clear the value to Madagascar of that preferred access by presenting the trade weighted most favoured nation (MFN) tariff and the tariff equivalents of the quotas that constrain non-preferred exporters to the US, principally Madagascar's Asian competitors.⁶ Table 25 shows for example that were it not for AGOA, U.S. importers of cotton apparel from Madagascar would be required to pay a 15 percent tariff on those imports on average and that the average tariff equivalent of quotas for cotton apparel imports is 30 percent on top of that. The average tariffs for apparel made from synthetic and "other" fibres are 23 and 22 percent respectively; and the tariff equivalent of quotas are 27 and 8 percent. Together, average tariffs and tariff equivalents of quotas add up to protection on the level of 45, 50 and 30 percent respectively for apparel made primarily from cotton, synthetic and "other" fibres.

Table 25: US Tariffs and Quota Tariff Equivalents by Fibre Type Impending changes in AGOA preferences due to quota elimination



Fibre	Total Protection (Tariff + Quota Tariff)	Quota Tariff Equivalent (Percent)	Trade Weighted MFN Tariff (Percent)
Cotton	45	30	15
Synthetic	50	27	23
Other (Wool, man-made)	30	8	22

Source: Lojewski & Al. 2004

In addition to quantifying the magnitude of the benefits available to Madagascar via AGOA's duty and quota free access for qualifying apparel, Table 21 also reveals important differences by fibre type in the preferred access AGOA provides Madagascar and other beneficiaries. In the case of cotton apparel, quotas provide the major benefit from preferential access to the US market since the tariff equivalent of the quotas is double the trade weighted tariff. In other words, more than 2/3 of the benefits of AGOA preferential access to the US market for cotton products will be eliminated with quotas on January 1, 2005.

The margins of preference provided by both duty and quota free access to the US market are higher for apparel constructed of man-made fibres than for apparel constructed of cotton. And, unlike in the case of cotton apparel, tariffs on man-made fibre apparel make up almost 50 percent of Madagascar's preferred access to the US market.⁷ In other words, 1/2 of the

⁶ Technically, the tariff equivalents of quotas presented in Table 21 are average export tax equivalents of quotas rather than tariff equivalents since the quotas are applied at the factory gate rather than at the port of entry. For simplicity of understanding and because the two measures of quota value are similar, we refer to them here as tariff equivalents.

⁷ Nearly 90 percent of Madagascar's cotton apparel exports are in the two most sensitive US quota categories-cotton trousers and cotton knit shirt. These categories have the largest number of Asian

margin of preference that is currently provided to Malagasy AGOA exports of man-made fibre apparel will remain intact even after quotas are eliminated on January 1, 2005, whereas only 1/3 of its margin of preference on cotton apparel will remain. This is of major strategic importance to Madagascar.

The most promising targets for product diversification into apparel constructed from man-made fibre (including poly-cotton), based on tariff preferences to the US market include 1) woven and knit trousers, breaches, and shorts; 2) shirts and blouses; 3) dresses; 4) nightwear, bathrobes and pyjamas; and 5) coats, overcoats, capes and windbreakers. Several of the products in this list are major apparel products with high import volumes and for which US tariffs on man-made apparel are substantially higher than other fibres, including cotton.⁸

EU tariffs on cotton and synthetic apparel (including polycotton)

EU tariffs on cotton and synthetic apparel do not differ in the same way so developing country preferences under the ACP/Cotonou Agreement and GSP Everything But Arms do not confer the same opportunity to gain from a strategic decision to diversify. EU tariff structure is very different from the US one. Many tariffs are equal to 12%, except jerseys, woollen knitted pullovers and some accessories. The tariff structure is “flat”. There are no tariff peaks. So such a tariff structure does not specifically encourage diversification. Nonetheless, if producers in Madagascar decide to diversify in response to opportunities in the US market, they might also discover opportunities to gain from an expansion of their synthetic apparel exports in the EU.

Directory of clothing companies

According to the Ministry of Trade, Industry and Private Sector Development, and the Consortium of Free Zone Companies and Partners (GEFP), Madagascar has 91 clothing companies (Table 26).

Table 26: Directory of clothing companies

Companies	Activities	TEL	FAX	E-MAIL
ACCORD KNITS	Clothing of pull-over	22 691-46 44 485-14	032-23-878 88	patrice@accord-knits.mg akstana@accord-knits.mg arno@accord-knits.mg
ACTUAL TEXTILES	Clothing	22-277-66	22-290-50	actual@wanadoo.mg haingo@actual.mg
AD COMPANY	Clothing	22-452-00	22-452-01	ad.fatex@wanadoo.mg
AKANJO SARL	Clothing	22-490-01	22-416-29	akanjo@simicro.mg
ALBA MAILLE	Clothing of pullovers	22-596-41	22-596-34	alba@iris.mg
ALPHA SALES SARL	Clothing	22-567-35	22-558-78	solo@alpha-sales.com
ANTANA PRODUCTION SA	Clothing	22-477-87	22-477-83	antaproduct@wanadoo.mg
AQUARELLE MADAGASCAR	Clothing of shirts	22-469 29 22-469 30	22-469-41	acltana@wanadoo.mg acltana@netclub.mg

countries (15 and 13 respectively) constrained by quotas. Therefore, these averages likely underestimate the benefits Madagascar receives from quota free access to the US market.

⁸ Several major product categories such as women’s skirts and swimsuits are not listed here because they do offer significant margins of preference either in absolute terms or relative to cotton products.

Companies	Activities	TEL	FAX	E-MAIL
ARAWAK SA	Clothing	22-581-65 22-581-63	22-581-64	arawak@iris.mg
BAM APPARELS SARL	Clothing	22-213-28	-	fen@wanadoo.mg
BG CONFECTION SA	Clothing	22-397-75	22-371-57	infosbg@jobtextiles.com
BL GARMENT MANUFACTURING	Clothing	22-481-83	-	-
BODOVOAHANGY EXPORT SARL	Clothing for kids	22-521-18	-	ambato@wanadoo.mg
BRODERIES ARTISANALES SARL	Clothing and embroidery	033-12-173-93-	-	-
CELTO ANDRIAMAHEFA	Clothing	22-439-71	22-439-45	celto@wanadoo.mg
CLASSIC KNITWEAR SA	Clothing of pull-over	22-331-45	22-264-66	ck@wanadoo.mg
COATS MADAGASCAR SARL	Finition de fils à coudre en polyester	22-540-71	22-540-73	inderjeeth.BECHAN@coats. com
COLORTEX SARL	Sérigraphie, printing and Clothing	22-452-47	22-453-53	colortex@wanadoo.mg
COLUMBIA CLOTHING COMPANY	Clothing	44-492-02	44-492-24	arasoanaivo@ccc.mg
COSMOS MADAGASCAR SARL	Clothing	22-368-22	22-368-59	cosmosmd@wanadoo.mg
COTESUD	Clothing	22-228-23	22-244-67	cts@cotesud.mg
COTEXMA	Clothing	22-740-02	22-245-88	giauto@simicro.mg
COTTON COMPANY	Clothing	-	-	-
COTTONLINE SA	Clothing	44-484-22	44-483-65	nalakar@cottonline.mg
CREGI	Clothing	22-356-67	-	-
DEMAD SA	Clothing for kids	22-451-02	22-450-97	demad@wanadoo.mg
DIAMOND EMPIRE	Clothing	22-484-54	22-486-21	diamondempire@wanadoo.m g
DK CREATION	Clothing	-	-	-
EPSILON	Clothing	22-257-30	22-629-21	epsilon@iris.mg
EVERGREEN	Clothing	-	-	nova@wanadoo.mg
FATEXMA	Clothing for tee-shirts	22-452-00	22-452-02	fatexma@wanadoo.mg
FESTIVAL	Clothing	22-435-41	030-23-816 47	festival@iris.mg
FLOREAL MADAGASCAR SA	Clothing for pull-over	22-228-69	22-289-24	floreal@floreal.mg
GLORY MADAGASCAR	Clothing	22-586-96	22-584-52	pchan@mssa.mg
GRIFFY SA	Clothing	22-528-68	22-528-69	rajkumar@mbgriffy.com
GROSS VIEW ENTERPRISES SARL	Clothing	22-459-15	22-458-20	grossview@wanadoo.mg
GROVE INDUSTRY M CAR SARL	Clothing	22-578-88	22-573-88	grovemdg@wanadoo.mg
HENICO	Clothing	22-534-84	22-538-09	henico@henico.mg
HKS KNITWEAR M CAR SARL	Clothing	22-565-36	22-565-36	hks.mada@wanadoo.mg
INDEPENDENT M CAR GARMENT LTD	Clothing	22-210-91	22-380-06	maxiaolin_independent@iris. mg
INDIGO SARL	Clothing	22-416-40	22-414-77	indigo@wanadoo.mg
INITIATIVES	Clothing for kids	22-903-72	22-903-88	initiatives@iris.mg
IRINA MADAGASCAR SARL	Clothing and embroidery for kids	22-647-22	22-352-93	compta@iris.mg
JH M CAR SARL	Clothing jean	249 33	-	jhkranch@iris.mg

Companies	Activities	TEL	FAX	E-MAIL
JNJ (MADAGASCAR) SARL	Clothing	22-606-06	-	-
KANTO SARL	Clothing	22-487-15	22-487-14	afasia@wanadoo.mg
KARINA	Clothing	22-605-73	22-605-74	karina.sarl@karina-international.com
KIM KOON GARMENT	Clothing	22-484-02	22-484-01	kim-koon@wanadoo.mg
L FIVE	Clothing	032-07-878-85-		ssakhrani@btinternet.com
L'AVENIR SARL	Clothing	22-963-21	22-669-78	avenir@wanadoo.mg
LOOK EXPORT SA	Clothing	22-347-21	-	-
M KLEN INTERNATIONAL	Clothing	032-07-878-85-		ssakhrani@btinternet.com
MACOTEX	Clothing	22-352-92	22-352-93	macotex@wanadoo.mg
MAD BEA	Clothing	22-580-82	-	-
MADAGASCAR FASHIONIT SARL	Clothing	032-07-883-8822-326-84		SNTang@mssa.mg
MADAGASCAR HANTEX	Clothing	22-586-88	22-586-68	hantex@wanadoo.mg
MADAGASCAR SALES SA	Clothing of pull-over	22-344-41	22-326-84	mssa@wanadoo.mg
MADAPROD SARL	Clothing	22-464-95	22-464-96	madaprod@wanadoo.mg
MAD-ENERGY	Clothing	22-405-31	-	-
MADGABEST	Clothing	22-445-96	22-450-38	madgabest@wanadoo.mg
MADIMPORT	Clothing	22-303-99	22-202-76	nadir@madimport.mg
MARIN CONFECTION	Clothing	-	-	-
MATEZA	Clothing	22-291-79	22-291-79	-
MAVITEX SARL	Clothing	22-468-06	22-760-41	mavitex@wanadoo.mg
MEE NGAI SARL	Clothing	22-222-57	22-222-43	meengai@wanadoo.mg
MGB III	Clothing	-	-	-
MIKENI MADAGASCAR SARL	Clothing	22-216-04	22-356-02	mikeni@wanadoo.mg
MINMAX	Clothing	22-499-26 22-499-27	-	minmax@wanadoo.mg
MT DISTRIBUTION SARL	Confection	22-456-20	22-456-20	mtd@wanadoo.mg
OTM	Confection	22-439-21	22-439-19	otmfin@wanadoo.mg
PACO SARL	Clothing of silk products	22-282-83	22-283-83	gpm@wanadoo.mg
PANTHER SARL	Clothing	22-466-90	22-466-91	panther@wanadoo.mg
PILATEX	Production de foulards, cravates et gants	22-442-36	22-442-46	pilatex@wanadoo.mg
PLG CONFECTION SA	Clothing and fading jeans	22-208-38	22-294-67	info@plg.confection.com
PLUMMY GARMENT MADAGASCAR	Clothing	22-584-73	22-443-94	plummy@wanadoo.mg
POINT DE RIZ	Clothing and embroidery	22-347-95	22-347-95	rabane@wanadoo.mg
POLO GARMENTS MAJUNGA	Clothing	62-229-96	62-229-97	pgmdir@mdg.polo-group.com
PRIME VIEW	Clothing	22-459-15	-	grossview@wanadoo.mg
PROSIMEX MADAGASCAR	Clothing	22-458-18	22-454-39	prosimad@simicro.mg
RADHA FASHIONS SARL	Clothing	22-439-20	22-439-19	otmfin@wanadoo.mg
SAMAF EXPORT SARL	Clothing	22-462-95	22-465-43	samaf@bow.wanadoo.mg
SKY EASY GARMENT MADAGASCAR	Clothing	22-570-55	22-570-56	-

Companies	Activities	TEL	FAX	E-MAIL
SOVIMA TEXTILES	Clothing	22-448-68	22-448-68	sovima@wanadoo.mg
ST FELIX KNITTERS	Clothing and apparels	knitting 22-628-77	22-695-98	stfelix@blueline.mg
SUD CONFECTION	Clothing	22-481-89	22-457-92	sud.confection@simicro.mg
TRIANGLE SARL	Clothing and basketwork	22-571-21	22-571-20	triangle@wanadoo.mg
ULTRAMAILLE SARL	Clothing	22-438-15	22-438-14	ultram@simicro.mg
UNICOM WASHING DYEING AND GARMENT SARL	Clothing, fading and dyeing-apparels		-	-
UNIVERSAL GARMENTS LTD	Clothing	22-260-48	22-262-21	unigmt@wanadoo.mg
WING TAI (MADAGASCAR) SARL	Clothing	22-379-28	22-287-05	wtmpurch@iris.mg
YMACOL	Clothing	-	-	ymacol@youngmyung.com

Source : GEFP

2.8 Extra industry information

In Madagascar, there are two specific business associations dealing mainly with the textile and apparel sector:

- « Groupement des Entreprises Franches et Partenaires » (GEFP)
- « Entreprises Franches et Réseau de Développement » (EFERD)

GEFP: Groupement des Entreprises Franches et Partenaires

The *Groupement des Entreprises Franches et Partenaires* (GEFP), an association of free zone companies and partners was founded in 1998.

GEFP has several missions such as:

- The Promotion of free zone companies and its local and international commercial partners
- The defense of the common interests defined by the members vis-à-vis the Public Sector and international institutions
- The Defense of the common interests of the members in the relationships with the Civil Service and Trades Unions
- The Coordination of “social” and “economic” actions with other employers' associations
- The Management of the partnership with the Public Sector and other Malagasy Private Sector stakeholders in various fields of socio-economic actions
- The Information of the members on national and international economic situations.

The GEFP represents a significant number of jobs, companies and a commercial volume, which gives it, at the national level, power for negotiation, not only with the State and the Administration but also with other employers' associations and employees' trade unions. The GEFP thus established a platform of permanent dialogue with the Public Sector by ensuring the sustainability of free zone enterprises in Madagascar.

The GEFP counts among its members the majority of free zone companies set up in Madagascar, and acts towards improving competitiveness and promoting the socio-economic role of its members, such as:

- Abolition of VAT payment
- Facilitation of customs procedures for import and export as well as for subcontracting and local sales.

Any legal entity which shares the above-mentioned goals can become a member of the GEFP, such as:

- Any free zone company
- Any Association or Consortium of Free Zone Companies
- Any Establishment subcontracting with Free Zone Companies
- Any Association or Consortium of Companies which are Partners of Free Zone Companies
- Any common law company which is a commercial partner of one or many Free Zone Companies
- Any common law company whose interests meet with those of Free Zone Companies.

EFERD

This organization was born out of recognition that small and medium enterprises (5-50 employees) are trapped in a subcontracting relationship with the larger clothing exporters. Unable to access credit from the banking system and unable to identify overseas buyers for their production, they have little hope of directly brokering commercial relationships on their own. These firms are the Malagasy-owned companies in the business, and the ones having the hardest time making ends meet. As subcontractors, their margins are smaller and their order levels more variable than those faced by the larger firms. Since they take subcontracting jobs from different large firms, they also bear the cost of higher polyvalence, as there is a ramping up cost associated every time a new production line has to be established.

EFERD's objective is to help SMEs get access to credit, develop markets, receive assistance for compliance with filing paperwork and tax obligations to the state (formalization of operations is a required condition of adherence to EFERD), and professional training. A for-profit wing will operate as a central sourcing and marketing office on behalf of its members on a fee-basis. EFERD also expects to manage quality control across members, and expects members to comply with international labour and working conditions norms. Needless to say, they would also have to be AGOA-compliant. For smaller firms, EFERD may also arrange for them to move into more modern collaborative industrial space.

The underlying concept is similar to "agent" houses in Asia, which provide similar functions for home-based workers and SMEs. A U.S. buyer would place an order for xx pieces, and EFERD would place that order among its membership in order to aggregate capacity and fulfil the volumes requested. The group has been set up with a lot of attention to governance and transparency. Eventually, EFERD envisions becoming involved in artisan and other sectors. For the moment, however, its priority is to target clothing companies. EFERD was established in January 2003 as a non-profit organization. This organization would not compete with GEFP. EFERD can look out for the SME interests in the clothing export sector. As far as collaboration in a public-private working group on trade policy dialogue is concerned, EFERD is interested in such a model. Each professional association – GEFP and EFERD – has its own needs, but also common needs.

Below (table 27), we have listed institutions and associations which are working with companies in the Cotton, Textile and Apparel sector.

Table 27: List of institutions involved in the regulation of cotton sector operations

INSTITUTIONS	FULL ADDRESS
Comité d'appui au pilotage de la relance de l'entreprise (CAPE)	Contact : Mrs Noro Andriamamonjarison, Technical Secretary Nouvelle Immeuble ARO – 4 ^{ème} étage Ampefiloha – Antananarivo 101 E-mail : cape@netclub.mg
Chambre de Commerce, d'Industrie, d'Agriculture et d'Artisanat (CCIAA)	Contact : Mr Rakotondrahova, President 20rue Paul du Dussac Antaninarenina Phone : 261 20 22 202 11 / 12 / 81 E-mail : cciaa@tana-cciaa.org
Entreprises Franches En Réseau de Développement (EFERD)	Contact : Mr. Fetison Rakoto Andrianirina, President Phone : 261 20 22 557 04 - Fax: 261 20 22 555 62 E-mail : henico@henico.mg
Groupement des Entreprises Franches et Partenaires (GEFP)	Contact : Mrs Harinivo Randriamandranto, Secretary-General Villa E2 – Village des Jeux Ankorondrano – BP : 7564 – Antananarivo Tel.: 261 20 22 363 32/ 261 20 22 380 50 Fax: 261 20 22 403 73 E-mail: gefpmg@dts.mg
Guichet Unique des Investisseurs d'Entreprises (GUIDE)	Contact : Mrs Lalao Randriamanga, Nouvelle Immeuble ARO – 2 ^{ème} étage Ampefiloha – Antananarivo 101 – Tel.: 261 20 22 674 77
Ministry of Economy, Finance and Budget (MEFB)	Contact : Mrs Henri Razakariasa, Secretary-General Antaninarenina Antananarivo 101 Tel.: 261 20 22 298 78 (general standard) Web site: http://www.mefb.gov.mg
Ministry of Industry, Trade and Private Sector Development (MICDSP)	Contact : Mrs Olga Rasamimanana, Secretary-General Nouvelle Immeuble ARO – 2 ^{ème} et 3 ^{ème} étages Ampefiloha – Antananarivo 101 – Tel.: 261 20 22 300 83 Web site: http://www.micdsp.gov.mg
Société Générale de Surveillance (SGS)	Contact : Mr Guy Escarfaille, CEO Bureau de Liaison SGS Madagascar – Immeuble Ariane 5A Enceinte Galaxy – Andraharo – Andraharo PO Box: 1554 Antananarivo 101 Tel.: 261 20 22 564 10/11/12/13 – Fax: 261 20 22 564 14 Web site: www.sgs.com

3.0 TRADE PERFORMANCE

3.1 Trade Policy and Regulatory Environment

Madagascar trade policy and various trade agreements

Madagascar has contracted different bilateral agreements. The two most important are those with the US and the EU. The sourcing of foreign fibres and fabrics for use in apparel made in Madagascar for which preferential access to the US or EU market is sought is subject to rules of origin. Those rules of origin define which apparel will be certified for complete relief from duties and quotas in the importing country. Considerable uncertainty now surrounds US AGOA and EU rules of origin. In order to successfully export apparel to the US and EU, regardless of the fact that the AGOA special rule has just been extended, producers in Madagascar must become familiar with the US and EU rules of origin and develop a solid knowledge of reliable fabric and yarn sources in Asia and within the sub-Saharan Africa region.

US rules of origin

Standard AGOA rule of origin Apparel assembled in sub-Saharan Africa from fabric wholly formed in sub-Saharan Africa from US or sub-Saharan African yarns is eligible for duty and quota free treatment.⁹ Fibres (cotton, wool, staple or tow) and chemical polymers may be of any origin (e.g. from the US, sub-Saharan African or non-regional). The major exception to this general rule is for knit to shape garments - circular knit or seamless knit garments - because the minimal cutting and sewing involved require them to utilize fibres also originating in sub-Saharan Africa or the US.¹⁰

Tolerance is provided in the cases of findings or trimmings (buttons, zips, elastic bands, snaps, or decorative lace) of foreign origin, up to a maximum of 25 percent of the cost of the components in the finished garment. Tolerance for specific piece good interlinings of foreign origin is also provided. Finally, a garment eligible for AGOA benefits can contain up to 7 percent, by weight, of yarns of foreign origin, in other words, not wholly of US or sub-Saharan African origin.¹¹

With third party provision

Currently, AGOA provides an exception to the standard AGOA rule of origin for least developed countries (LDC), such as Madagascar. The exception to the rule of origin permits LDC countries to use fabric and yarns from non-US and non-sub-Saharan African sources. Like most AGOA provisions, the use of non-regional materials is subject to a quota (cap) that has never been filled. The exception for LDC countries has just been extended for a period of up to three years, or through to 2008. Of equal importance, this legislation extends also the

⁹ Subject to a cap which has never been filled.

¹⁰ This general rule is referred to as triple transformation in customs terminology.

¹¹ Interpretation of US rules of origin under the AGOA is greatly facilitated by the fact that regional producers have never filled quotas on their exports of garments claiming preferential access. It should, however, be noted that several caps exist, which are often defined by the use of combinations of US materials and threads. If sub-Saharan African producers ever filled these quotas (caps), the AGOA rules of origin would become significantly more complicated and restrictive.

AGOA benefits (without an LDC exception) to 2015 in order to give producers and investors the certainty to develop long range production and sourcing plans.

EU rules of origin

Apparel producers in Madagascar should develop a clear understanding of the EU preferential rules of origin. The EU preferential rules of origin for garments fall under two separate programs for Madagascar: the ACP/COTONOU and the Generalized System of Preferences (GSP). While the two programs' descriptions of the tariff preferences they provide ("elimination of tariffs") appear to be quite similar, crucial differences in their rules of origin cause the actual preferences provided to be substantially and materially different.

In general, the EU rules of origin require two significant processes to be performed within the defined country or region of origin in order for a preferred exporter to obtain official certification of origin and, thereby, relief from tariffs. The concept of significant process is highly technical and legalistic. However, in many cases, significant transformation results in the official reclassification of a product from one tariff heading to a completely different tariff heading.¹² In industry terms, this means garment construction (making-up), must be coupled with one other significant process. In most cases, this means "forming of fabrics or yarns". Except in a few circumstances, dyeing and finishing fabric and/or a garment is not sufficient to confer origin (although an important exception exists for printed fabric and is explained below).

ACP\COTONOU\GSP

The COTONOU Agreement provides for complete relief (elimination) of import duties for apparel meeting the rule of origin provided in the Agreement. According to the COTONOU Agreement, garments (including cotton, wool and man-made fibres) claiming relief from EU tariffs may be constructed of foreign (non-regional) yarn, but fabrics must be formed (knit or woven) and made up into a garment in one or more of the ACP countries. This liberal so called full-accumulation clause allows for a situation where Mauritian textile producers can import yarn from Asia, knit or weave fabrics which are then made-up into garments in Madagascar certified for duty free access to the EU¹³. As with the US rule of origin, a major exception exists for garments knit to shape such as circular knits and seamless garments, which require that the yarn be spun in an ACP country, in addition to constructing the fabric and making-up (which is minimal in this case).

All garments seeking duty free treatment must be shipped directly to the EU without entering the customs territory of any other country though allowance is made for goods shipped to foreign ports but not entering the customs areas of another country and stored solely for onward freight.

Exceptions to these general rules are limited and include primarily products containing significant embroidery and impregnated fabrics. A potential opportunity does exist for

¹² The EU provides a separate list for products that do not follow this general rule. A tariff heading is the first four digits of the internationally recognized harmonized tariff system.

¹³ A notable exception to this rule is for embroidered apparel, which requires that a threshold for value added be met. It's important to note that while the ACP agreement provides for full-accumulation with other members. The largest manufacturer of textiles in the region, South Africa, is not an ACP member and, therefore, its textiles do not contribute (cumulate) to meet the origin requirement. It's interesting to note that the Cotonou agreement does provide for accumulation with South Africa, but this provision has never been implemented by the ACP and South Africa (not insignificantly, so called diagonal accumulation will require harmonized rules of origin among member states).

Malagasy producers to leverage EU rules of origin for apparel constructed of printed fabrics. EU rules allow for the use of non-regional (non-ACP) fabrics in made up garments, if the non-regional fabrics are printed in the ACP region. The printing, however, must add at least 52 percent to the value of the fabric.¹⁴ Further, a tolerance of 15 percent non-regional content is provided like that provided for findings, trimmings or non-originating fibres and yarns.

Generalized System of Preferences (GSP) and the Everything But Arms (EBA) Program

As a least developed country, Madagascar is eligible for complete tariff elimination under the EU GSP program for least developed countries – the Everything But Arms (EBA) provision. The EU GSP provides for 20 percent relief for apparel imports from many developing countries. The EBA provision of the EU GSP allows complete relief for certain least developed countries (LDC) including Madagascar. Since the EBA is a part of the EU GSP arrangement, EBA rules of origin are the same as the GSP.

In contrast to the COTONOU Agreement, which provides a 15 percent tolerance, the EU GSP provides only a 10 percent tolerance for non-originating findings, trimmings and components. There is no accumulation with other sub-Saharan African producers. Therefore, garments must be constructed of fabrics formed in Madagascar or the EU (including any dyeing and finishing).

Implications of rules of origin for garments constructed of man-made fibres (including poly-cotton)

The US and EU rules of origin for garments constructed of man-made fibres have several implications for a decision by producers in Madagascar to diversify into exports of these products. Apparel producers in Madagascar interested in diversification should forge alliances with cost and quality competitive input producers in the region who are capable of meeting the standard AGOA rule of origin. Importantly the rule permits the use of imported fibres in a region where high quality wool and man-made staple fibres are likely in short supply, if available at all. It does require, however, that the yarns be spun and the fabrics constructed in AGOA countries. There are several producers capable of meeting the rule that also have proven records for meeting the quality US and EU buyers require, mainly in South Africa. While it is widely reported that the prices of cotton fabrics from South Africa cannot compete with Asian fabrics, it is reported that with the substantial duty preference, many man-made fabrics from South Africa can.¹⁵ Still it should be noted that while cost and quality competitive suppliers and excess capacity for AGOA eligible fabrics and fibres exist, regional capacities are still viewed as low by world standards. Consequently, there will be limits to the uptake of AGOA benefits for garments made of these fabrics and on the order sizes apparel producers can expect to meet.

¹⁴ This application of the printing provision in EU rules of origin has been controversial; the definition of what constitutes “printing” is interpreted by individual EU customs authorities differently. Exporters seeking to utilize this provision to claim preferential access to the EU should consult local EU customs officials or brokers with knowledge of the application of these rules, which may change from time to time.

¹⁵ Regional fabric and apparel producers report that although regional man-made and wool fabrics are somewhat higher priced than the most competitive Asian producers, the differences in prices are not a significant factor in sourcing materials from within the region. Although, producers agreed, as long as large US apparel buyers have the option of using familiar Asian fabric producers, while being able to qualify for duty free access under the least developed country derogation to the AGOA rule of origin, they are unlikely to seek out and build partnerships with African suppliers

The extension of the LDC exception for using non-regional fabrics will provide fabric and yarns for a broad base of products at the best prices.

Regional agreements

Madagascar's trade policy is patterned along the framework of regional agreements which have been signed with COMESA, SADC and Indian Ocean Commission. At the heart of these agreements is a tariff reform program. Madagascar is one of the 11 countries which have reduced tariff on intra COMESA trade to zero. In SADC Madagascar is committed to the time for reduction of intra-regional tariffs to zero by 2012.

Challenges and constraints from multilateral trade context

Madagascar's success in attracting investment in the Textile and Clothing Industry and its capacity to penetrate the EU and US results from the preference it enjoys being exempted from MFA provisions. The phasing-out of the MFA in 2004 will erode this comparative advantage and provoke a dramatic change in international competition. Negotiations for further tariff cuts within the WTO constitute an additional threat for its competitiveness.

That is the reason why apparel producers in Madagascar should consider diversification into exports of synthetic apparel (including poly-cotton) as a strategic option for maximizing post-2004 preferential tariffs. There are some specific product diversification opportunities that apparel firms in Madagascar should consider in light of the January 1, 2005 quota elimination which highlight the potential for those firms to position themselves in the US and EU markets advantageously in response to rapidly changing market trends.

3.2 Regulatory environment

Tariffs

Import duty on cotton lint, yarn fabric and apparel is 0% if sourced from COMESA member states. If sourced from other countries the tariff ranges between 5% and 15%. There is no preferential tariff arrangement within SADC framework.

Table 28: Import duty on cotton and textile products

	COMESA	SADC	Other countries
Cotton lint	0%	NA	5%
Yarn	0%	NA	5-15%
Fabric	0%	NA	5-15%
Apparel	0%	NA	15%

Non-tariff costs apply mainly to three sections, namely:

- Manufacturing,
- Various documents required for shipment, including the related procedures,
- Other small obligations to be complied with (which are numerous).

Manufacturing

Madagascar's EPZ policy allows clothing companies to import yarns, fabric, and trims duty-free if at least 95% of the imported inputs will be used to produce for export. However, all AGOA-related imported inputs have to be used up within six months, or duty must be paid on the value of the original shipment. Manufacturers note that buyers sometimes request delays in order fulfilment until the following season, if something is not selling well. This can wreak havoc on companies' planning schedules.

Production imperatives relate primarily to the following points:

- Quality assurance of products: regular visit of limited partners (5 times a year on average) to check product conformity; close collaboration in products production; product approval prior to any mass production; training of quality control officers; training of staff who should be all-rounders (thanks to position switch) in the field of the clothing industry to ensure production continuity (in case of absenteeism for example),
- Respect of deadlines based on established planning - organization of a meeting if any specific production event occurs;
- Quality of production process: existence of various types of control (materials used – fabric color/quality, cutting, measurement, sewing, making the set, washing, ironing, labeling and packing stages),
- Obligation to get from suppliers the materials recommended by the clients.

Import and export requirements

Procedures vary according to the nature of the operation, i.e, whether imports or exports. Obligation to provide documents:

- For imports:

Purchase invoice; Delivery note for local purchases or Airway Bill of Lading/AWB for air shipments; Request for a pre-shipment inspection visit (DVI) to "Société Générale de Surveillance" (SGS) if the overall value of goods exceeds US\$ 1,000.

- For exports:

Sales invoice; Agreement to repatriate foreign currencies (EDRD – bank domiciliation); Airway Bill of Lading/AWB for air freight; technical data sheet for stock auditing; Certificate of Origin or EUR1; packing list; customs declaration.

Additionally, there are other related obligations to ensure shipment: order of transit; container reservation; stuffing date; embarkation date; choice of ship.

During the clearance formalities at the Customs, the prohibition to put goods into containers before Customs inspections take place creates problems related to costs and time. Sometimes, one must wait a whole day for customs officers.

Some operators suggest a grouping of trucks containing goods not yet cleared by the Customs in a well-delineated area to avoid congesting Customs' warehouses on the one hand and to save time in goods haulage on the other hand.

Other constraints:

In addition to legal requirements, there are also additional constraints related to shipments as follows:

- Issues related to infrastructures:
 - At the port: inadequate organization system (sometimes it takes a whole day to find a container); and lack of handling equipment
 - Road: landslides during the rainy season can delay goods haulage to the port and their subsequent embarkation on the ship. Consequently, delivery to customers is also delayed. Or conversely, material supply is delayed and this affects production planning.
 - The rail line that connects Antananarivo and Toamasina is not yet presently an option for overland cargo shipments. The state-owned railway has recently been privatized and became MADARAIL. The sooner the Antananarivo-Toamasina line becomes operative, the better for Madagascar's clothing exporters. It is forecast for the end of 2004. A competitive and efficient rail operation would introduce sorely needed competition in the market for overland cargo haulage services.
 - Maritime shipping lines do not go directly between Toamasina and the U.S., but rather transit via Mauritius, South Africa, or even Mombassa or the Arabian peninsula.
- High fees: forwarding agents charge about MGF 5.7 million for a 20-foot container weighing 12 tons, which is already a negotiated price.
- Significant amount paid to customs officers for additional work, ranging from MGF 90,000 to MGF 375,000 per file.
- High fees charged by authorized forwarding agents: for a shipment or customs clearance. Further problems relate to warehousing fees (approximately MGF 150/kg/day) if the shipment is delivered but some documents are missing.
- The great number of copies of documents required: sometimes 100 copies are required per shipment because all the documents should be duplicated.
- The importance of communication concerning the date of shipment of goods and related documents.

There has been an improvement of procedures, namely the simplified declaration for overall Attestation of Destination. From now on, a single declaration shall be made at the beginning of the year.

AGOA Paperwork and Customs Administration

The U.S. AGOA visa system presents particular record-keeping challenges for clothing exporters. In order to become AGOA-eligible, the Malagasy customs service's AGOA office must inspect the firm's plant. Training in documentation and logistics is provided in order to explain how to manage the necessary paperwork. Stocks of fabric and trims imported for AGOA-specific production must be kept physically separate from stocks destined for non-U.S. markets. Separate documentation must also be kept on all U.S.-specific orders and their fulfilment. Similar to the buyers' compliance inspections done by private companies, the AGOA customs office also reviews payrolls and facilities.

In addition to AGOA-related regulation, the government of Madagascar changed its customs inspection system in April 2003. Previously, all non-EPZ related imports were subject to customs valuation inspections. In April, the Swiss firm *Société Générale de Surveillance* (SGS) was brought in to replace the previous contractor.

SGS is determined to render trade facilitation services to importers and not to be perceived as a bottleneck. So imports by EPZ firms, are exempted from such inspection. SGS also indicated it would soon transition to a system of *ex-post* customs valuation inspections in order to eliminate delays in physical access to imported inputs. SGS is here because the government seeks to overhaul its customs service and cannot do so directly or without assistance. Further modernization and computerization of customs service operations by SGS is sorely needed from the point of view of enhanced efficiency of customs service operations and increased satisfaction from the private sector

The following steps are involved **to import inputs for AGOA-related exports** destined for the U.S. market:

1. When a production order is received by a Malagasy manufacturer from a U.S. client, the firm must file the following paperwork regarding imported inputs with the Malagasy AGOA customs office:
 - Original commercial invoice for the imported goods;
 - Declaration of import values and quantities, with indication that these are required for AGOA-related manufacture, usually taking 48 hours to file;
 - No physical pre-shipment inspection is requested by SGS for EPZ firms;
 - A green channel procedure has been created for EPZ firms.
2. With these in hand, an AGOA declaration is filed with a freight forwarder, taking 1 day to process.
3. Upon arrival of the imported inputs, each shipment must be visually inspected by an AGOA customs officer and by the SGS officer.

In order to process an AGOA-related export:

1. Paperwork required for acquiring an AGOA visa includes:
 - Commercial invoice indicating the value and number of pieces being exported;
 - Actual packing list;
 - Certificate of origin, provided by the local Chamber of Commerce;
 - Bank documentation to attest to export value plus a *Repatriation of foreign currency* form that requires that all export earnings be repatriated within six months;
 - Raw material and accessory stock sheets that indicate how much has been used from each of the imported inputs and the balance remaining;
 - Copy of the import customs declaration for the inputs.
2. Submit above-mentioned paperwork to freight forwarder, who seeks the AGOA visa from the AGOA customs office. This usually takes one day.

3. Proceed to physical inspection by AGOA customs officer, carried out at the forwarder's office. This usually takes one day.
4. The AGOA visa paperwork must physically accompany all air freight. It can be sent to buyer/ importer via courier in the case of sea freight, often arriving before the freight actually does.

Customs facilitation had been introduced in 2003 to improve competitiveness.

Malagasy Labour Productivity, Skills, and Supply

While Malagasy labour is less productive than labour in other garment-exporting countries, this is compensated by lower wages. However, the supply of available labour is tight in the highlands, where clothing manufacturing is located. Expansion to coastal areas appears to be infeasible. Moreover, firms based in Antananarivo are unable to run more than one shift per day. There is little available training for workers or more highly skilled textiles industry positions outside of firms.

In addition to the sheer weight of numbers, employment in the textile industry is valued because of the difference between wages in the textile industry and those in alternative sectors such as agriculture and the informal sectors. Textile sector employment also offers healthcare, pensions, paid leave benefits, and greater stability of employment.

3.3 Performance of exports and imports

In 2004, 178 textile and clothing companies were registered in the Malagasy EPZ. In addition, there are a multitude of micro-enterprises operating as cottage industries. Such enterprises are primarily in the embroidery sector. EPZ manufacturers contribute to the bulk of apparel export (95%). Detailed data (volume and value) of Madagascar trade flows (exports and imports) of cotton lint, yarn and fabrics are in Appendix 1.

Cotton lint

The quantities of cotton lint imported from ESA region are very low (Table 27). Imports from ESA region started only a few years ago. Cotton lint exports have been significant before the crisis period in 2002 (Table 29). A recovery is observed in 2003.

Table 29: Import of cotton lint to Madagascar (kg) (Code HS 5201 to 5204)

Regions	1998	1999	2000	2001	2002	2003
COMESA	0	0	20	0	0	0
SADC	0	0	0	37	0	44
Others	27,410	7,470	1,201	21	131	41 271

Source: Malagasy Customs Office

Table 30: Export of cotton lint from Madagascar (kg) (Code HS 5201 to 5204)

Regions	1998	1999	2000	2001	2002	2003
COMESA	0	0	0	0	412,516	1,187,962
SADC	1,966,081	300,000	0	0	412,516	1,678,446
Others	5,996,202	8,494,498	4,337,394	3,452 578	3,137,422	3,214,809

Source: Malagasy Customs Office

Cotton yarn

Cotton yarn exports (Table 30) are much more significant than imports within ESA region (Table 31). Unlike cotton yarn, the exchange flows did not yet come back to pre-2002 level.

Table 31: Export of cotton yarn from Madagascar (kg) (Code HS5205 to 5207)

Regions	1998	1999	2000	2001	2002	2003
COMESA	709,678	444,027	594,945	231,661	277,156	182,447
SADC	709,348	444,027	594,945	231,661	277,156	183,130
Others	156,948	182,434	349,789	26,667	122,101	17,448

Source: Malagasy Customs Office

Table 32: Import of cotton yarn to Madagascar (kg) (Code HS5205 to 5207)

Regions	1998	1999	2000	2001	2002	2003
COMESA	99,679	381,031	345,317	117,605	2,868	137,483
SADC	97,689	377,730	335,839	115,634	2,868	137,485
Others	1,141,067	1,637,428	2,126,673	999,664	254,529	1,245,166

Source: Malagasy Customs Office

Cotton fabrics

Within ESA region, cotton fabric imports are more than ten times the volume of exports (except during the crisis period in 2001-2002), with increasingly high costs.

Table 33: Import of fabric to Madagascar (kg) (Code HS 5208 to 5212)

Regions	1998	1999	2000	2001	2002	2003
COMESA	5,330,683	6,160,141	4,624,870	2,405,516	692,889	2,076,503
SADC	5,381,548	6,207,183	4,624,924	2,405,816	699,754	2,082,190
Others	4,620,421	5,818,589	6,642,572	3,787,773	1,232,831	9,444,442

Source: Malagasy Customs Office

Table 34: Export of fabric from Madagascar (kg) (Code HS 5208 to 5212)

Regions	1998	1999	2000	2001	2002	2003
COMESA	464,428	385,992	546,910	454,554	528,567	94,051
SADC	448,790	374,258	536,248	435,518	449,431	93,817
Others	2,002,476	1,714,457	2,288,309	353,051	223,517	55,985

Source: Malagasy Customs Office

Apparel exports

Apparel exports consist mainly of knitted garments (HS code 61), woven garments (HS code 62), and other textile products (HS code 63), which make up 80% of exports in value terms. Pullovers account for 90% of knitted garment exports, while trousers represent 35 % of woven garments.

Table 35: Volume of exports by product category, 2003

HS Code	Product description	Quantity (kg)
61	Articles of apparel and clothing accessories knitted and crocheted	4,052,149
62	Articles of apparel and clothing accessories not knitted not crocheted	5,891,390
63	Others textile products	147,639

Source: Malagasy Customs Office

4.0 RECOMMENDATIONS

The development of Textile and Clothing as a major export sector in Madagascar has been made possible by the introduction of the EPZ in the late 80's. Development in the 90's came mainly from exports to the EU. During the last few years, exports have essentially been driven by opportunities offered under AGOA, which enables Malagasy clothing firms to benefit from quota and duty free exports of products manufactured from third country fabrics into the US market.

Madagascar's integrated cotton textile industry and the abundant land and human resources it possesses are considered as a key asset to elevate the country as a major player in the textile trade. The country does have infrastructural constraints, like all LDCs, which tend to affect investment projects. But this is not seen as an insurmountable problem considering the magnitude of growth it has registered and the amount of foreign investments it has been able to attract during the few years before the political crisis in 2002. The calibre of investors that have delocalised in Madagascar is another factor supporting this positive view. Over two years have passed since the international community recognized the administration of President Ravalomanana as the legitimate government of Madagascar. Now, Madagascar appears to be stabilized. Business is on the increase. In 2003, Madagascar was the fourth largest exporter of clothing to the US market in terms of volume and the fourth largest in terms of value within AGOA. (Cf. USITC)

Furthermore, it is believed that textile is the economic sector that is able simultaneously to alleviate poverty levels the most rapidly in the urban as well as the rural areas. But the ambitions concerning the development of textile should also be gauged against economic reality. One major constraint Madagascar will have to face is in fact, time. With a half year countdown before the abolition of quotas, many investors will most likely wish to hold on to investment plans until the future become more comprehensible.

Heavy investments in textile manufacturing are impeded by fundamental factors that are related to political stability history, investment guarantee and factor costs. Unlike garment manufacturing, Madagascar's labour wage differential with other countries does not result necessarily in production cost reductions. For one, the share of labour cost is smaller, and, secondly due to the high technical requirements of functions, training is lengthy and heavy expatriate costs will have to be borne before local personnel is trained. Madagascar must work actively to convince the world market that it is committed to expansion of its textiles sector.

First, the world market needs to know that Madagascar's textile and clothing is working to increase its integration with African suppliers of lint, yarn, and fabric, in order to prepare to meet AGOA's requirements after expiration of the Special Rule. In addition, the world market needs to see that Madagascar is taking steps to improve the competitiveness of its cotton-textiles-clothing sector through improved integration with suppliers and final customers.

With respect to the first point, elements of a plan to increase Malagasy firms' integration with African suppliers of raw materials might include:

- ***Privatization of a significant share of HASYMA*** in order to reinvigorate raw cotton production in Madagascar (under way).
- ***Rapid implementation of an aggressive research, extension, input supply, marketing, and investment campaign*** by the new majority shareholder of HASYMA to make cotton an attractive option once again for peasant farmers, and thus to expand production.
- ***Market development assistance to Malagasy textile and clothing companies*** to develop commercial relations with other African suppliers of lint, yarn, and fabric.
- ***Elaboration of a promotion plan to attract foreign investment*** in expanded spinning, weaving, knitting, dyeing capacity in Madagascar.
- ***Establishment of a modern workforce development program:*** Workforce development in the textiles sector should address the skills and training needs of middle- and high-skilled textile/clothing sector workers, in order to help Malagasy participate more fully in the benefits of expanded textiles activity.
- ***Implementation by government of pro-market policies in the areas of***
- ***Institutions*** (e.g. customs modernization),
- ***Trade rules*** (e.g. inspection),
- ***Taxation***, and
- ***Infrastructure development*** (e.g. priority rail line modernization, port modernization, reduction in electricity costs),
to ensure that Madagascar is competitive in terms of competitive unit costs, sufficient volumes that can be delivered to world markets, and lead times that are as short as possible.

The important progress that is already being made by the government on these issues should be publicized as visibly as possible in the global trade press.

- ***Diversification***

Garment producers in Madagascar should take the opportunity to consider diversifying into synthetic apparel exports (including poly-cotton) in order to maximize post-2004 tariff preferences.

While diversification presents one strategic option to help apparel producers in Madagascar along the path to long term sustainable export growth, it also presents a challenge. All countries and industries have inherent strengths and comparative advantages.

- ***A cluster development strategy***

Madagascar currently supports three key elements of a vertical textiles chain, i.e. seed cotton production and ginning, spinning and weaving/spinning and knitting, and garment assembly. These are currently supported by suppliers of logistics and energy. Professional associations

that actively represent the interests of producers and logistics companies include both the GEM (Madagascar's Enterprise Association) and the GEFP (Association of Duty-Free Enterprises and Partners).

While the existence of these elements is important, Madagascar does not yet have a fully developed textiles "cluster." The availability of key factors such as skilled labor and infrastructure, the degree to which clear signals are given about what consumers are looking for, the presence of globally competitive supplier industries such as machinery and trims manufacturers, and the presence of a corporate culture, style of management, and competitive market environment that promotes innovation and global perspective – determine the extent to which a cluster will succeed internationally or not. In the longer run, Madagascar's cotton-textiles-clothing value-chain will need the support of a more fully developed cluster to succeed.

APPENDIX 1A: TRADE FLOWS CODE HS 5201 TO 5212

Cotton lint import (Value in US\$)

	1998	1999	2000	2001	2002	2003
COMESA	-	-	148	-	-	-
SADC	-	-	-	334	-	104.73
Others	81,517	68,377	4,228	882	2,715	98,646.17

Cotton lint export (Value in US\$)

	1998	1999	2000	2001	2002	2003
COMESA	-	-	-	-	320,755	1,335,765.74
SADC	2,762,466	354,947	-	-	320,755	1,879,692.20
Others	8,434,669	10,125,845	4,278,748	4,056,271	3,052,159	3,909,310.33

Cotton yarn import (Value in US\$)

	1998	1999	2000	2001	2002	2003
COMESA	555,598	2,468,028	1,977,496	579,556	12,796	549,682.27
SADC	553,408	2,463,805	1,961,534	574,580	12,796	549,693.06
Others	7,858,728	10,276,830	16,725,885	6,488,298	1,129,321	4,828,808.09

Cotton fabrics import (Value in US\$)

	1998	1999	2000	2001	2002	2003
COMESA	21,687,367	23,655,616	19,580,474	11,804,427	3,389,096	10,143,492.97
SADC	21,830,053	23,864,747	19,580,637	11,805,118	3,425,184	10,185,758.85
Others	24,692,692	34,297,870	37,911,580	18,219,379	5,004,007	43,733,286.24

Cotton fabrics export (Tissus De Coton)

	1998	1999	2000	2001	2002	2003
COMESA	2,879,168	1,967,758	3,188,106	2,357,453	2,612,355	317,672.36
SADC	2,810,868	1,915,685	3,161,501	2,298,889	2,109,647	317,011.85
Others	21,786,359	11,351,433	19,493,112	1,066,206	1,231,285	341,196.59

Source : The Customs Office

APPENDIX 1B : TRADE FLOWS OF HS 600320 TO 630691

Apparels import (Value in US\$)

	1998	1999	2000	2001	2002	2003
COMESA	64,643	634,829	419,792	495,289	188,081	416,496
SADC	67,591	631,179	414,343	499,463.3	191,696	427,740
Others	4,158,068	1,941,371	1,632,658	2,173,954.6	1,334,210	2,204,897

Apparels export (Value in US\$)

	1998	1999	2000	2001	2002	2003
COMESA	2,316,643	1,288,609	886,431	1,132,884	1,370,818	491,347
SADC	2,258,502	1,230,290	741,063	1,539,474	1,423,169	12,103,214
Others	91,634,414	114,575,734	156,543,938	170,673,366	68,716,566	115,114,398

Source : The Customs Office

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