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**The Textile and Clothing Industry
of Madagascar**

in:

Herbert Jauch / Rudolf Traub-Merz (Eds.)

**The Future of the
Textile and Clothing Industry
in Sub-Saharan Africa**

Bonn: Friedrich-Ebert-Stiftung, 2006

Country Reports



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By Ralaivelo Maminirinarivo

1. Introduction

During the last two decades, Madagascar has been confronted with a series of economic challenges linked to the country's persistent indebtedness and its changing policies on investments. From a period of nationalisation and state control of the economy, it embarked on a process of structural adjustment since the 1980s, and, like many other developing countries, Madagascar has shifted its policies towards increasing liberalisation. As a result, the national economy remains precarious and extremely vulnerable to external shocks from the international economy. Today, the economic situation of the majority of the population is more depressed than at the time when the country attained independence from France. More than 70% of the population are living below the poverty line, and the GDP per capita has been reduced by half since 1960.

The development of the textile industry in Madagascar was slightly different to other Sub-Saharan African countries. During the 1960s and late 1970s, the national government attached prime importance to exports of traditional crops such as vanilla, while at the same time, pushing for a policy of import substitution through state-owned companies to produce consumer goods, including textile products.

The textile sub-sector became one of the fastest growing industries. Specifically, six industrial units were competitive until the 1980s, including state owned companies such as SUMATEX, and a semi-public company SOTEMA, which employed more than 2,000 workers. The growth of the sector was reinforced by the existence of cotton processing agro-industrial units, which provided the raw materials needed by the textile industry.

During the 1990s, the textile sub-sector declined and experienced factory closures. Only four domestic companies remained competitive. This negative trend can be attributed to various interrelated factors, such as :

- the mismanagement of state owned companies combined with financial difficulties and high levels of debt
- the lack of competitiveness in face of economic liberalisation
- the unfair competition brought about by the massive and fraudulent import of textile products and second hand clothing.

To attain the development objectives, as well as the reduction of the poverty rate by half within ten years¹, the Government attached particular importance to the revitalisation of the private sector, particularly in export processing zones (EPZ).

The promotion of the EPZs since 1995 resulted in a substantial recovery of the textile and clothing sub-sector, consolidated by the eligibility of Madagascar to benefit from AGOA. As a result, the textile and clothing industry became a major job provider and a significant contributor to the national economy.

The sector was again hard hit by the political crisis of 2002, which led to the dismissals of thousands of workers. While the clothing and textile sector recovered as from 2003, it presently faces a new critical situation. Since the expiry of the Agreement on Textiles and Clothing (ATC) 10 companies closed down and 5,000 workers were retrenched.

2. Structure and Development of the Textil and Clothing Industry

2.1 Growth of Export Processing Zones

Madagascar's economy is dominated by agriculture, whereas manufacturing is of minor importance. Between 1994 and 2003, the share of the secondary sector in the national GDP stagnated at around 11-12%. Within the secondary sector, a significant change took place with the development of EPZs. The contribution of the EPZs to the GDP of the secondary sector increased from 4.5% in 1995 to 7.1% in 1999 and further to 10.3% in 2001. Due to the political crisis in 2002 it declined by 2% followed by a remarkable growth in 2003.

Table 1: **Share of the Export Processing Zones (EPZs) to GDP (constant prices 1984)**

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Secondary sector/ GDP (%)	11.7	11.7	11.7	11.8	11.9	11.9	12.2	12.3	11.2	11.5
Share of EPZ inGDP (in %)	0.2	0.5	0.6	0.7	0.8	0.8	1.0	1.3	0.9	1.1
Share of EPZ in GDP of secondary sector (%)	1.9	4.5	5.5	5.7	6.5	7.1	7.9	10.3	7.8	9.2

Source : National Institute of Statistics

1 In Paper for the Strategy of Poverty Reduction. May 2004

Although EPZs became significant for the manufacturing sector, their contribution to Madagascar's overall GDP remained small, amounting only to about 1 per cent in 2003. Overall, EPZs did not yet live up to their potential in terms of developing national industries.

2.2 EPZ: Number of Companies and Investment

Since the introduction of the EPZs, the number of EPZ textile companies has grown steadily, with an annual growth rate of 30 per cent. This can be attributed to the marked openness of the national economy, and the attractiveness of low labour costs. Most of the EPZ-companies (63.8%) operate in the textile and clothing sub-sector. The number of EPZ firms reached a peak in 2001-2002, and in 2003 the sector consisted of 114 companies.

The following table illustrates the prominence of the textile and clothing companies in the EPZ in comparison with other sub-sectors

Table 2: **Distribution of Companies in EPZs by Sub-Sectors of Activities in 2004²**

Sub-sector	%
Agro-business	5.9
Craft industry	3.8
Wood	2.7
Chemicals	4.9
Leathers	1.1
Clockwork, jewellery	0.5
Various manufacturing industries	5.9
Computers and services	8.1
Mechanics, Electrics	1.6
Textile and clothing	63.8
Mining	1.6
Total	100
Source: National Institute of Statistics	Note: Absolute figures not provided.

2 Source : Ministry of Industry and Trade, Data on exports

2.3 EPZ: Foreign Direct Investment (FDI) and Ownership

In 2000, the EPZs accounted for 36 per cent of all new foreign direct investment in Madagascar. Total EPZ capital stock then stood at 112,6 billion MGF, representing 22 per cent all the foreign direct investments³.

Concerning the structure of shareholding, the share of local investors in the capital stock of the EPZs is estimated at 35 per cent, highlighting the predominance of foreign companies.

Though detailed data on investments per country are not available, recent surveys indicate the predominance of companies from Europe and the USA. A considerable increase of investments from Asia was noticed between 2000 and 2001⁴.

Foreign direct investment from Mauritius

Mauritius is a special case as the neighbouring island is itself a developing country and has historically developed through the early establishment of EPZs. Up-to-date figures on textile companies originating from Mauritius are not available, but an indication of their importance can be received from figures on total foreign investment. Mauritian FDI accounts for 19 per cent of the total amount of foreign direct investment and ranks second after France, as illustrated in Table 3.

Table 3: **Distribution of Foreign Direct Investment (FDI) by Country of Origin: 2000 and 2001 (in Malagasy Francs)**

Country	2000	2001	Total
France	181 167 317 925	156 333 362 010	337 500 679 935
Mauritius	83 612 415 429	115 051 182 410	198 663 597 839
Belgium	38 251 352 977	50 878 335 989	89 129 688 966
Luxembourg	20 478 587 400	64 357 938 938	84 836 526 339
China	23 669 249 656	34 779 553 947	58 448 803 603
Canada	25 163 020 536	30 369 387 618	55 532 408 154
Reunion	26 072 936 559	26 643 680 726	52 716 617 285
Netherlands	22 196 381 718	22 686 891 344	44 883 273 062
U.S.A	29 468 172 673	11 587 221 340	41 055 394 013
Japan	7 477 067 018	10 655 748 417	18 132 815 435
Hong Kong	2 498 392 543	15 248 031 415	17 746 423 958
Sweden	4 714 319 370	4 373 140 679	9 087 460 048
Great Britain	1 795 499 943	6 253 473 845	8 048 973 788
Others	9 134 384 560	9 579 825 746	18 714 210 306
Total	475 699 098 307	558 797 774 423	1 034 496 872 730

Source : Survey FDE/IPF-INSTAT/BCM-2004

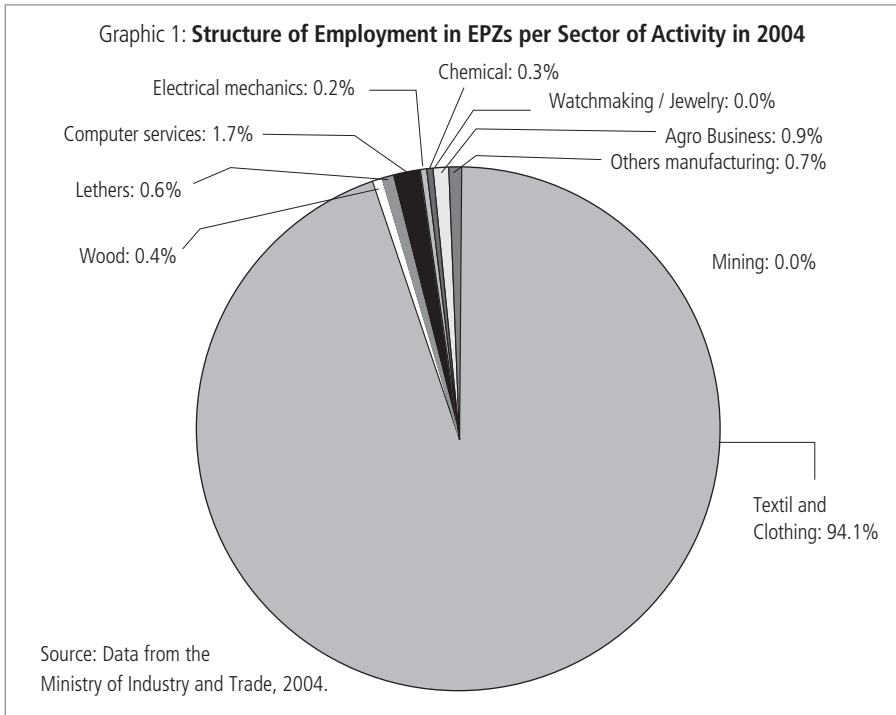
³ Source: National Institute of Statistics, Survey on Foreign Direct investment, 2004

⁴ Idem

2.4 EPZ: Employment Levels

The number of employees in all EPZ-companies was estimated at 115,000 in 2004, representing one third of the country’s formal manufacturing jobs. EPZs have also led to the creation of 80,000 indirect jobs in the services and cotton production sectors.

The available data reveal the concentration of EPZ employment in the textile and clothing sector, which is the main source of employment accounting for about 94 per cent of all EPZ jobs. Graphic 1 is illustrative of the significant employment created by the sector.



Women represent 80% of workers in the sector⁵. Their employment is, however, precarious as shown by a significant turnover rate which is worsened by the uncertainty in the industry after the end of the Agreement on Textiles and Clothing (ATC).

5 Groupement d’Expertise et de Compétence, Situational analysis of EPZ, 2004

2.5 The Export Boom for Clothing

Total exports from the EPZs increased by 48% per year between 1995 and 2000. During that period, the share of EPZ exports in total exports increased from 22 to 54%. The political crisis in 2001/02 brought large parts of the economy to a near standstill. Exports were nearly reduced by half but the economy started to recover in 2003.

The boom in the EPZ-export sector in the 1990s was primarily driven by clothing firms. Measured in local currency, the value of clothing exports increased by 700% between 1995 and 2000. The sector was hard hit in 2001 and 2002, when many companies closed down. It was only in 2004 that exports of clothing products shot above pre-crisis level, reaching an all-time high production level.

Table 4: **Growth of Textiles and Clothing Exports (1995-2004, in Billiards MGF)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Textiles										
cotton material	0,2	8,1	14	107,9	64,6	125,2	3,1	8,8	0,8	15,2
Silk material	0	0	137,1	2,6	55,7	155,9	0	0	0	0
Clothing										
Sweater, Pullover	81,6	100,4	122,1	286,5	409,5	848,5	585,4	177,7	406,4	1071,1
T-shirts	53,0	48,7	41,7	48,3	89,7	154,0	189,0	39,4	85,0	187,0
Off the rack: women	59,5	82,2	101,9	158,0	239,6	329,8	334,5	182,3	443,7	1050,2
Off the rack: for men	63,4	84,8	104,8	242,9	340,4	468,8	519,1	224,4	282,0	791,4
Textiles & Clothing	257,7	324,2	521,6	846,2	1199,5	2082,2	1631,1	632,6	1218,1	3114,8
Seafood										
Tinned tuna	121,0	117,3	41,7	208,3	172,4	137,7	184,3	194,7	252,4	
Shrimps	45,4	52,7	21,7	75,4	13,1	14,1	247,8	385,5	397,9	
Other exports	43,1	58,2	102,3	261,8	393,4	743,4	389,8	403,8	371,6	
Total exports all economy	467,3	552,3	687,2	1391,7	1778,4	2977,4	2452,9	1616,7	2240,0	
Source : National Institute of Statistics / INSTAT/DSE/SSES										

Clothing exports from Madagascar essentially supply two markets: The USA and the EU where Madagascar enjoys preferential market access. The effect of preferential market access can be seen in particular between 1999 and 2004, when exports turned toward the US-market. Table 5 shows the growing importance of the U.S market share compared with the E.U, which can be attributed to the Africa Growth and Opportunity Act (AGOA).

Table 5: **Clothing Exports from Madagascar to the US and EU (US\$m)**

	Madagascar	
	US	EU
1990	0.4	10.8
1991	0.1	15.1
1992	0.2	18.5
1993	1.5	46.3
1994	2.8	92.6
1995	6.7	122.0
1996	11.0	147.7
1997	15.3	177.1
1998	22.0	218.0
1999	45.7	213.9
2000	109.5	244.7
2001	178.2	238.3
2002	89.4	145.6
2003	195.9	127.9
2004	323.3	Na

Source: US ITC, US Department of Commerce, Otxea Eurostat, as quoted in Mike Morris (in this volume)

2.6 Domestic Production vs. Imports

Production for exports may benefit the domestic economy, if EPZ-companies are linked to the local economy sectors and source their inputs from local companies. The cotton industry is an essential component of the national textile sector. Many EPZ companies in Madagascar are indeed supplied with cotton fabric from COTONA, but there are problems with the quality, quantity and reliability of supply. EPZ-companies have therefore tended to turn their back on domestic firms and instead, increased their textiles supplies through imports (see Table 6).

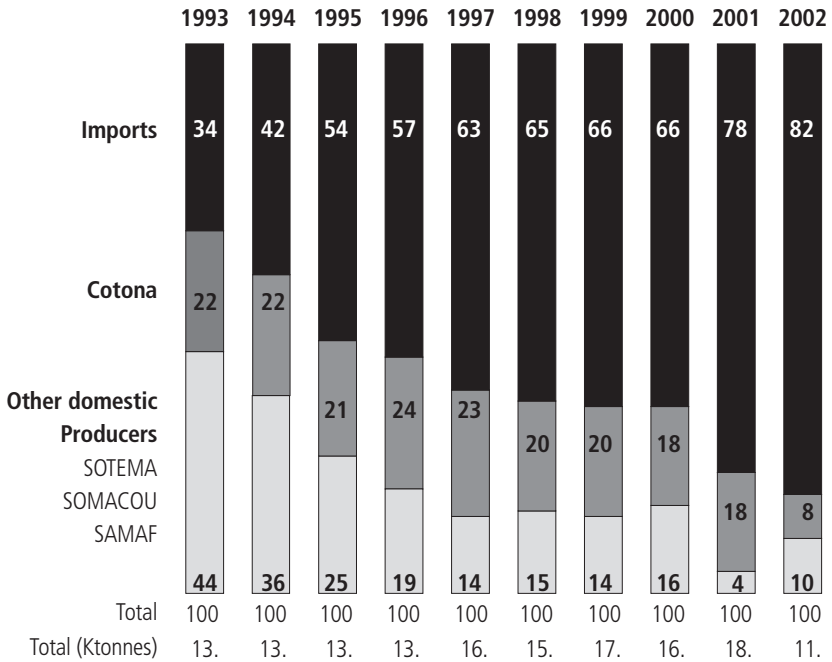
Table 6: **Annual Imports of Textile Products (in current Billiards MGF)**

Products	2001	2002	2003	2004
Cotton fabric	16.46	4.42	28.31	57.33
Other textile fabrics	43.54	38.65	136.47	355.49
New clothes and underwear	32.09	21.60	34.57	28.99
Second hand clothes	0.34	0.98	22.71	15.40
Other manufactured apparels	16.36	10.07	23.08	38.34
Total	108.78	75.73	245.13	495.54

Source : National Institute of Statistics

Despite the development of clothing industries in the EPZs, the overall decline of local industries in the textile and garment sector is patent, as only three national companies remain competitive (SAMAF, SOMACOU and COTONA). Over the years, the market share of local producers has been progressively eroded by massive fraudulent imports. The growing importance of imports to the detriment of the local companies is shown in Graphic 2.

Graphic 2: **Shares of Foreign and Local Producers on the Domestic Textiles and Clothing Markets (1993-2002)**



The figures in Graphic 2 show the growth of textiles and clothing imports to the detriment of local producers. The market share of COTONA, which is the main domestic producer, has been reduced from 22 per cent 1993 to a mere 8 per cent in 2002.

3. The New Challenge for the Clothing and Textile Industry in Madagascar

The production of textiles and clothing is confronted by many obstacles which, if not properly addressed, will seriously challenge the future of the industry in Madagascar. Key issues are related to the international market (such as the end of the ATC) as well as the local conditions of production.

- *The impacts of the new rules of international trade*

The risks of disturbances of global markets as a result of the expiry of the ATC are tremendous, mainly due to the fact that the local economy was not prepared to face tough competition. Indeed, the threat of loss of export market shares and employment is real, with an increasing number of companies tempted to relocate production to more “attractive” countries. In 2004, already about 5,000⁶ jobs have been lost in the EPZs.

- *High factor costs*

Madagascar is disadvantaged because of its high factor costs, specifically electricity, water, telecommunication, freight and transportation costs. Table 8 compares these costs with those in neighbouring countries.

Table 7: **Factor Costs Per Country in U.S.\$**

Item	Mauritius	Madagascar	Botswana	Kenya	Lesotho	Sri Lanka	South Africa
Electricity (Watt)	0.05	0.09	0.03	0.1	0.07	0.05	0.03
Water (M3)	0.29	0.34		0.43	N/A	0,36	N/A
Commercial rent (M2)	1.82-2.27	3.5-11	1.85-2.52	2-3.2	N/A	N/A	N/A
Local phone call (3 mn)	0.03	0.08	0.02	0.04	0,01	0.04	0.09
Phone call to the US (3 min.)	4	8.98	3.6	7.35	N/A	3.05	1.98
Internet: monthly service charge	22.9	66.5	14.7	65.6	12.3	6.5	8.5
Internet: phone use per minute	0.38	0.44	0.14	0.46	0.17	0.05	0.33

Source : Ministry of Industry and Trade, Survey on the EPZs, March 2004

- *The global business environment*

Notwithstanding the efforts made by national decision-makers to improve the business environment in Madagascar, certain constraints hamper the competitiveness of the textile sector, specifically:

⁶ National Institute of Statistics

- the complexity of administrative procedures (especially customs procedures)
- the security of investments, which, despite tangible improvements, remains insufficient.

- *Labour standards*

The precariousness of employment in the textile and clothing sector and the high rate of turnover are not favourable to the career development of employees. This also prevents workers from gaining access to continuous training to obtain higher qualifications which are needed to achieve improved competitiveness. There are many cases of abuse, which contradict the principles of decent labour standards and conducive working conditions, especially for women. Such poor labour relations undermine attempts to improve productivity.

4. National Economic Policies towards Promoting the Growth of the Textile and Clothing Industry

There are several priorities identified by Government and EPZ business groups, pertaining mainly to lobbying activities at the level of international institutions, the improvement of the local business environment, improved productivity, and the development of an innovative trade policy for the economically important sectors.

4.1 The Revision of the EPZ Regulations

The improvement of the local business environment is regarded as fundamental for attracting new investors. Among others, the following aspects are deemed essential:

- The revision of the law on EPZs is in progress, carried out by an inter-ministerial committee. However, the representatives of workers are not involved in the process.
- The updating of certain provisions and the introduction of new regulations for the promotion of investments and the creation of jobs are at the center of the revision committee's work. EPZ operators wish to have revised customs procedures to alleviate the burden of cumbersome procedures and to prevent risks of corruption in the customs operations. Currently, steps are taken to modernise the customs administration and to make it more transparent.

4.2 Addressing the Issue of Factor Costs

The identification of appropriate solutions for the high factor costs is essential for the sustainability of EPZs. This has to include cheaper forms of electricity and a railway line from the capital city to the main port.

4.3 Developing Innovative Commercial Policies

The main actors are aware of the necessity to adopt an aggressive commercial policy to extend the market shares of the textile and clothing industry. Thus, the exploration of the opportunities offered by the admission of Madagascar as a member of SADC as well as the development of policies for a reinforced regional integration is recommended. To this end, trade officials and business leaders have engaged in actions such as the promotion of trade fairs in Africa.

The consolidation of partnerships and commercial relations within the framework of the Indian Ocean Commission is equally fundamental.

4.4 Fostering Economic Actions to Improve Productivity

The competitiveness of the textile and clothing sector depends on its ability to maintain competitive prices, while preserving the quality of the products. Considering the limited integration of the sector within the national economy, which resulted in a marked dependency on imports of inputs and an increase of production costs, the vertical integration of the textile sector is planned, specifically through the revitalisation of cotton production.

Despite the experiences acquired by workers in the sector, the lack of developed technical skills needed to keep pace with the technological evolution in the sector constitutes a serious obstacle for a competitive level of productivity. There is thus a need for the continuous training of workers in the sector.

4.5 Negotiating and Lobbying in Favour of Developing Countries

Madagascar is actively engaged in trade negotiations and supports the declarations made by the Least Developed Countries (LDCs) regarding the rules of the World Trade Organization (WTO). Madagascar demands:

- the adoption of corrective measures within the World Trade Organisation and at the level of the other concerned institutions for the least developed countries to enable them to adapt to the new conditions in the global market.
- the consideration of new measures to facilitate the protection of developing countries' market shares.

5. Reactions of Trade Unions

The right to join trade unions and to participate in their activities is guaranteed by the Constitution and protected by the Titles II and III of the Labour Code. The rights contained in the ILO convention No 87 on the right for union activities and membership are implemented through these provisions, as well as the convention No 98 on the freedom of association and the protection of the right to organize.

Generally, trade unions have remained relatively weak in the EPZs, even though a revitalisation of the movement is presently taking place and 14% of the workers in the EPZ Sector are members of trade unions. The most active trade unions are those grouped in the national conference of Malagasy workers (grouping five trade unions) and the newly created trade union for the workers in the clothing sector.

Unionisation rates do not reflect that actual support at grassroot level as many workers are inactive because of fear of reprisals. Yet, from the viewpoint of trade union leaders, considering the number of trade unions operating at clothing and textile companies, the sector accounts for higher levels of unionisation than other industrial sectors. This current weakness of trade unions can be explained by numerous factors:

- the resistance of employers to the promotion of dialogue with trade unions and representatives of staff;
- the lack of interest of workers in trade unions;
- the insufficient knowledge of labour regulation at the level of trade union leaders;
- the difficulty of access to training for trade unions and the disrespect of employers regarding trade unions activities;
- the organisational weakness of trade unions leaders.

The very low number of concluded collective agreements illustrates the weakness of collective bargaining in Madagascar. Out of 62 clothing and textile companies in the EPZ sector (2003) there is only one which has signed a collective bargaining agreement. This explains the relatively high number of labour disputes in the EPZ sector, with an average of 30 labour disputes referred to the labour inspection every day.

However, there is a growing willingness of employers and employees to move towards a negotiated management of the issues concerning work and employment. Issues related to the professional classifications are currently being discussed between GEFP (grouping of business in the EPZ sector) and CTM (conference of Malagasy workers), and the negotiations on salaries have resulted in a proposed increase of the minimum wage in March 2004.

Trade union leaders believe that the decline of Madagascar's clothing and textile industry in the 1980s was a result of the mismanagement of state companies during the period of nationalisation. The promotion of the textile sub-sector since the 1990s has resulted in a significant promotion of employment, as investors were attracted by the low cost and the dexterity of local workers. However, this comparative advantage is insufficient in a context that requires advanced technical skills for competitiveness.

Currently, the actions taken by trade unions are focused on three main areas:

- the reinforcement of technical capacities of workers;
- the effective implementation of bipartite negotiations within the EPZ companies;
- the reinforcement of social dialogue at all levels.

5.1 Enhancing Training Programme for the Reinforcement of the Capacities of Workers

Though it has been revealed by a survey on EPZs in Madagascar that about half of the workers in the EPZs have benefited from training offered by employers, the lack of quality training centres that could meet the specific needs of companies compromises the professional development of workers and their access to the positions of technical supervisors. Such positions require specific know-how and are currently held by expatriates .

Given the highly competitive nature of the global clothing and textile industry, coupled with the end of the ATC, the improvement of the training system has become a necessity to enable workers to obtain better positions.

The improvement of the technical capacities of workers is also considered a priority of trade unions. Therefore, trade unions leaders decided to collaborate with the French Cooperation Mission to set up a continuous training system for workers.

5.2 Ensuring the Implementation of Bipartite Negotiations in the EPZ Companies

Facing the risk of successive retrenchments in the textile sector, trade unions and the workers' representatives are committed to collective bargaining. However, the balance of power benefits employers, and unions have to develop more efficient strategies to enforce negotiations. Within the framework of a future national project for the promotion of productivity through decent labour in the EPZs, capacity-building programmes are envisaged to enable trade unions and employers

to engage in bipartite negotiations and collective bargaining. This project is supported by the ILO.

5.3 Promoting Social Dialogue and Negotiations

Trade unions feel sidelined as they are excluded from the main forum for discussions and decision-making on the future of the textile industry. The promotion of social dialogue within the framework of tripartite consultation for the promotion of productivity is, however, linked to the improvement of working conditions and the protection of workers' rights. This is the main focus of the trade union agenda. Thus, trade unions are engaged in national tripartite structures with a view of protecting the interests of EPZ workers. Unions also demand to be included in the major decision-making process on the future of the textile sector.

5.4 Developing an Action Plan for the Malagasy Textile Union

The end of the ATC forced the Malagasy Textile Union to draft an action plan that will be used as a tool for negotiations with the concerned stakeholders. The action plan includes four (4) interdependent objectives, namely:

- the training of shop stewards by the trade unions in the textile industry;
- Capacity-building activities for the trade unions;
- the setting up of a single and strong trade union within the textile sector;
- the improvement and the implementation of the regulations on the working conditions in the sector.

The training of workers' representatives will be effected through successive training programmes and seminars on various topics, such as the labour code, advocacy techniques, and gender issues in the workplace.

The main activities to be undertaken for the strengthening of the trade union consists of recruitment drives to increase membership and to negotiate wage increases by up to 40% in 2007. The operational objective is to set up a single and strong trade union covering 70 companies by June 2006.

Concerning the improvement and the enforcement of regulations on working conditions, the union wants to cover 80% of the clothing and textile workers through collective agreements, specifically addressing issues like classification, remuneration, canteens, medical care and social security, and breastfeeding.

6. Outlook

The textile and clothing sector consists mainly of EPZ companies, which operate in an environment of extreme competition. The future of the sector depends on the capacity of the stakeholders to develop pro-active strategies to address the growing vulnerability resulting from the new rules of international markets.

Although national authorities and the employers in the sector have embarked on some joint actions, the involvement of trade unions in the process remains limited and necessitates a serious consideration.

Madagascar has the advantage of having a plurality of investments, which can ensure a minimum of stability and sustainability in the face of possible relocation to other countries. However, as this matter is not confined to the borders of a single country, there is need to find a common solution for all concerned countries in Sub-Saharan Africa.

The efforts to achieve higher productivity cannot be separated from the task of achieving long-term job security and decent standards of work. These issues are a precondition for the attainment of improved productivity.