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Managerial Insights on the Politics of Trade Policy and Economic Development: The Case of Madagascar

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This paper examines the challenges faced by Madagascar, and its apparel and textile sector in particular, in light of its recent suspension from the African Growth and Opportunity Act (AGOA) eligible countries, thereby ending duty free access of its products to the US. The paper provides a thorough analysis of the historic development of Madagascar's apparel and textile industry in the context of its creation of special economic zones or "Zones Franches" and examines other threats to its textile sector. The paper analyzes the short- as well as long-term prospects of the Zones Franches experiment, on which much hope for the development of Madagascar had been pinned and provides managerial recommendations and directions for future research.

1. Introduction

With a view to helping the countries of Sub-Saharan Africa through trade, as opposed to aid, the US government, in May 2000, enacted the African Growth and Opportunity Act (AGOA), allowing duty free access for some African goods to the US. Currently, 33 out of the 48 UN recognized least developed countries (LDC) are located in this region (UNCTAD 2012). The beneficial role of AGOA on US-African trade has been widely recognized, although the extent of its positive effects is debated (Brenton and Hoppe 2006; Brenton and Ikezuki 2004; Nouve, 2005; Rolfe and Woodward 2005).

Madagascar came under the umbrella of AGOA in 2001, and within a few years became the second largest exporter of readymade garments- only behind Lesotho- from sub-Saharan Africa. Among the conditions for eligibility for AGOA benefits is a country's respect for the rule of law (Section 103(5) and 103(7) of AGOA). The unconstitutional transfer of power in Madagascar in March 2009, coupled with the failure of the new government to organize inclusive elections for a return to a constitutional order as demanded by the US and others, led to Madagascar's suspension of AGOA benefits with effect from January 1, 2010. As a result, apparels and textile produced in Madagascar are not currently eligible for duty free access to the US, thus creating serious problems for the \$1200-million-a-year Malagasy textile sector that employs over 50,000 people and accounts for about 8% of Malagsy economy (Lough, 2009). The suspension was re-examined at the end of 2010. The adverse impact of this suspension becomes clear from the drastic fall of export of textile products from Madagascar to the US—from US\$280 million in 2008 to US\$55 million in 2010.

This paper purports to evaluate the prospects of the Malagasy2 textile and apparel industry as it faces unprecedented challenges from within and an increasingly turbulent and hostile external environment. The analysis provided in this paper is mostly based on rich qualitative data gathered by the author prior to, during, and after the political crisis that led to Madagascar's suspension from AGOA.

2. Literature Review

A "Special Economic Zone", sometimes called "Export Processing Zone" (EPZ), is a geographically-defined area specially created in a developing country to facilitate manufacturing for exports and offer free trade conditions and generous regulations to attract foreign direct investment (Madani, 1999). The geographically defined area can be fragmented and dispersed. Indeed a stand-alone factory can be considered as part of an EPZ, along with others in various locations within a country. This is the characteristic of EPZs in Mauritius, Madagascar, and Namibia, among others. Not all production must necessarily be exported, but exports should constitute the predominant activity of the firm. In Madagascar, to qualify for EPZ status, a firm must export 95% of its production. Even though a few non-manufacturing firms are present in Malagasy EPZs (e.g., data processing firms), most EPZ firms are in manufacturing.

The Export Processing Zone: Panacea or False Promise?

The Host Country Perspective

The literature on EPZs, with a few notable exceptions (e.g., Choi 1995; Kumar 1994; Papadopoulos and Malhotra 2007; Woodward and Wolfe 1993) is dominated by the economics of development perspective. Indeed, most researchers have been concerned about measuring whether the host nation's welfare increases as a result of the presence of an EPZ (e.g., Hamada 1974; Warr 1989; Devreux and Chen 1995; 1997).

A second stream of research on EPZs adopted the cost-benefit analytical framework. According to the proponents of this approach, the benefits and costs of an EPZ are identifiable and quantifiable over the lifetime of the project (Jayanthakumaran, 2002). Cost-benefit analyses involve the calculation of opportunity costs, shadow prices and a number of estimations to quantify social benefits and costs in order to determine whether the overall benefits generated by the EPZ outweigh its costs. Critics of this approach point out to the difficulties of quantifying social costs and benefits and the assumptions that are questionable and invariably weaken the results (Madani, 1999).

Finally, a third stream of research, called "New Growth Theory", places spillover effects of EPZs, i.e., the linkages created with the host economy and the beneficial demonstration effect, and implicit transfers of skills at the core of its analysis (Johansson, 1994). In a developing country, local firms lack marketing, technical and managerial expertise. Further, they do not have access to consumer markets nor can they enter international channels of distribution. In all such areas the foreign investors attracted by EPZs can play an indispensible role (Jayanthakumaran, 2002).

The Controversies Surrounding EPZs

In economic theory, EPZs can only be a "second best" solution, since although they eliminate one major market distortion, namely import tariffs, they introduce another in the form of advantages conceded to foreign investors, which may be considered an "export subsidy". The consensus among neo-classical economists is that there is no substitute for liberalization throughout the economy (Alter, 1991; Cling et al,. 2005). In this perspective, EPZs are viewed as acceptable only insofar as they constitute a temporary measure toward broader deregulation and liberalization of the entire economy. This view reflects the position of international institutions such as the International Monetary Fund (IMF) and the World Bank who discourage the use of EPZs for economic development. In a move that many consider a reflection of IMF's influence on policy decisions, Madagascar enacted a new law in December 2008 that aimed to eliminate the EPZ status for new investors by the end of 2010. However that did not happen due to political crisis that engulfed Madagascar following the overthrow of its elected government in 2009.

Notwithstanding the controversies surrounding EPZs, an increasing number of developing countries have embraced them. There were only 47 countries with EPZs in 1986, but the number had increased to 166 countries by 2003 (Khan, 2008). This is occurring despite the overall lowering of impediments to trade and may suggest that, in the case of developing countries, internal obstacles to trade do persist and EPZs offer a vehicle to circumvent them (Papadopoulos & Malhotra, 2007). In sub-Saharan Africa, the great success of Mauritius in harnessing the power of EPZs (created in the early 1970's) to boost exports, generate employment, create backward linkages with the local economy, and propel the small island nation into the ranks of middle income countries (Alter, 1991; Kinunda-Rutashobya, 2003) inspired others (including its neighbor Madagascar) to follow in its footsteps. As the wages in Mauritius increased, some investors in Mauritian EPZs, especially those active in labor-intensive industries like apparel manufacturing, looked to relocate elsewhere. It comes as no surprise, then, that over 15% (GEFP 2008) of EPZ firms active in Madagascar are Mauritian-owned. The movement of the industry around the world is shaped partly by preferential trade stipulations and benefits, quotas, and investment opportunities. The example of the Mauritian investors relocating factories to Madagascar, and lately, to Namibia and Tanzania seems to validate their approach.

The Foreign Investors' Perspective

Several empirical studies suggest that the existence of an EPZ is one of the variables explaining the choice of a location for foreign direct investments (Choi, 1995, Kumar, 1994). Dunning's (1993) eclectic paradigm can provide a theoretical basis for understanding the investor's decisions as to the spatial locations of its manufacturing activities. The location advantages can themselves be broken down into EPZ-specific advantages and country-specific advantages. Examples of the former include generous tax advantages, duty free imports of equipments and intermediate goods, quality infrastructure often provided by local government, liberal labor regulations, less red tape, etc. Examples of the latter include abundant and easily trainable labor, low wages, strategic geographical location, etc.

EPZs in Madagascar

The legal framework defining the creation and operation of the EPZs, or Zone Franches as known in Madagascar, dates back to the late 1980s and early 1990s. After a few years of limited activities, the Malagasy EPZs took off in the mid-1990s, mainly to attract and facilitate foreign direct investment, generate employment, and bypass obstacles to exports resulting from administrative inefficiencies, infrastructural inadequacies, legal constraints, etc. (Razafindrakoto, 2004). The advantages offered include a tax holiday on profits (from 2 to 15 years) and reduced taxation thereafter (10% as opposed to 25% of profits), exemption from entry duties on imported inputs and production equipments, and foreign firms are allowed to repatriate their net profits (Mee, 2004). In addition, a single administrative office, called GUIDE was created in 2003 to centralize all administrative procedures concerning foreign direct investments and reduce red tape.

According to data gleaned from the internal records of the Groupement des Entreprises Franches et Partenaires (GEFP), the professional organization representing EPZ firms, the EPZ businesses generated more than 54% of Madagascar's total exports and almost 89% of exports to the US. For textile and apparel exports, the 111 EPZ firms generated more than 99% of the value of exports. The United States represented the largest market for apparel exports, with an estimated average annual growth rate of 41 % for the group of products classified under code 61, "Knitwear and associated products" for the period 1995-2007 (Rakotomanana & Rajaobelina, 2008). According to a study by Brenton and Hoppe (2006), more than 86% of Madagascar's exports to the US were eligible for duty-free access. The emergence of the US as a major export market can arguably be attributed to the favorable treatment accorded to Malagasy products under the terms of AGOA.

To date, there have been very few studies addressing directly Madagascar's EPZs. Those that have, tend to focus on employment patterns and standards, as well as gender issues. Existing literature suggests mixed evidence on the success of EPZs (Jayanthakumaran, 2002) and the linkages created by these zones with the wider economy are often limited (Kaplinsky, 1993; Warr, 1987). While some researchers such as Cling et al. (2005, 2007), Glick and Roubaud (2006), Nicita and Razzaz (2003) characterize the experience of Madagascar's EPZs as a relative success, some other researchers (e.g., Maminirinarivo, 2006; Ianchovichina et al., 2001) posit that EPZs have been not as successful as touted by its supporters.
To gain an understanding of the impact that the suspension from AGOA benefits on Madagascar, it is imperative to shed some light on the US-Sub-Saharan trade in general and the Malagasy textile sector vis-à-vis the global nature of the textile and manufacturing in particular as well as the scope of AGOA.

3. US- Africa Trade Profile and AGOA

The US trade with Sub-Saharan African countries is dominated by commercial exchanges with a few countries, most notably South Africa and Nigeria. According to an ITC report, imports from Sub-Saharan Africa represented more than $67 billion, out of which $51.1 billion were benefiting from AGOA (Diamend, 2008). Petroleum products from Nigeria, Angola, Gabon and Chad constituted 93% of AGOA imports, while non-fuel AGOA imports represented $3.4 billion, out of which more than a third ($1.3 billion) were textile and apparel imports.

At the heart of US trade policy toward the Sub-Saharan region, AGOA aims to promote open markets, facilitate exports and investments, and help African countries harness the benefits of globalization by integrating their economies into the global economy. AGOA is also seen as beneficial to US business firms investing, operating, or trading in the region.

Country eligibility conditions include "continual progress toward the establishment of a market- based economy and the rule of law" (USTR 2008, p.21). Virtually all products can benefit from AGOA, which granted duty-free access to eligible apparel articles through 2015. An important requirement is that the apparel be made of yarn or fabric made in the exporting country, in another AGOA member country or in the US. However, this rule was relaxed for least-developed Sub-Saharan countries (countries with a per capita GNP of less than $1500 per year in 1998) who were allowed to import yarn or fabric from non-AGOA members through September 2012 and still benefit from duty free access to the US market. This exemption, known as 'Special Rule' or 'Third Country Rule', is of utmost importance for the viability of the apparel industry in Madagascar since the country's production of yarn or fabric is insufficient to satisfy the needs of the industry and it would be prohibitively expensive to import from other AGOA member countries. At the time of writing this paper, The Malagasy apparel manufacturers could thus still import inputs at lower cost from Asia and remain competitive.

Africa and the Global Textile and Apparel Industry

Most African countries, including Madagascar, are heavily dependent on the exports of commodities, a situation that leaves them vulnerable to fluctuations in price over which they have little control (Yoshino, 2008). For example, Madagascar is the world's largest exporter of natural vanilla and a major exporter of litchi fruit to the European markets and had to the bear the devastating consequences of a collapse in the price of these commodities in recent years. In addition, the terms of trade of commodity-exporting nations have steadily deteriorated over the past few decades. Even though expanding manufacturing seems to be a viable alternative for countries facing such predicaments, the lack the infrastructure and the technical skills stymied the growth of manufacturing sector in Sub-Saharan African countries. However, such prerequisites are minimal in the case of garment production, especially the final assembly of clothing articles or what is referred to as Cut, Make and Trim (CMT) in the jargon of the industry. Indeed, CMT activities are very labor intensive, thus capitalizing on a factor of production which is available in relative abundance in Sub-Saharan Africa and require relatively little capital investment in equipment and machinery. The latter is important to note because foreign investors may be reluctant to invest large sums in countries that are chronically unstable and where the protection of property rights is relatively weak.

4. The Malagasy Textile and Apparel Industry at a Crossroad

The Malagasy textile and apparel industry has to confront both short term and long term challenges. The short-term challenges mainly stem from the suspension of Madagascar from the list of AGOA eligible countries. The long-term challenges are associated with a host of factors, from the lack of integration in the industry to high transportation and utility costs that cast a shadow on the future growth of the sector. In this section, we will first review the issue of political instability in Madagascar before turning to an examination of its immediate consequences for the apparel exporters.

The Political Crisis of 2009

Similar to many other less developed countries, Madagascar's political environment has been characterized by weak institutions and personality-based politics. As a result, Madagascar has been shaken by intermittent political violence. The latest political unrest started at the end 2008 that eventually led to the ouster of President Ravalomanana and his departure from the country on March 17, 2009. The Army Directorate that was put in charge by the departing President gave the reins of power to Andry Rajoelina, the Mayor of capital city of Antananarivo who was spearheading the agitation against the ousted President. The new leader came under intense pressure from international donors, the African Union (AU) and the Southern African Development Community (SADC), of which Madagascar is a member, to reach out to his political adversaries and agree on a "road map" to presidential and legislative elections that would restore constitutional order. Under the auspices of representatives from the international community, the four political factions, each coalesced around a present or former leader, engaged in protracted negotiations that after many false starts, led to the signing of "Maputo Charter" in the Mozambican capital in August 2009 that laid the foundations for an inclusive transitional government entrusted with organizing elections. The Maputo agreement was followed by another agreement by the representatives of the four factions in Addis Ababa, Ethiopia extending and solidifying the consensus. However, infighting over control of various ministries soon emerged in the transitional government. When a new meeting was called in Maputo, the de facto leaders (the Rajoelina faction) refused to participate. In its absence, the three other factions reached decisions that were deemed unacceptable by the Malagasy leadership, which also declared that it will no longer abide by the original Maputo agreement. As of middle of 2011, Madagascar remains mired in a deep political crisis, with no end in sight.

5. Methodology

The small number of firms in the Malagasy apparel and textile sector makes statistical analysis and a quantitative approach inappropriate for this study. Indeed, the presence of one or a few idiosyncratic characteristics or behaviors may vitiate or even invalidate the entire results based on statistical analysis of a small sample and render the conclusions useless and even misleading (Papadopoulos & Malhotra, 2007). Therefore, a qualitative approach based on in-depth interviews of industry participants as well as others that exert influence or contribute to shaping the industry was employed for this study. Such an approach, according to Creswell (2009), enables researchers to grasp and appreciate the complexities and nuances that characterize a specific situation and to provide a holistic account that best reflect them. We also examined documents that may contribute to the understanding of the Malagasy context as well as external constraints and opportunities.

The data collection process began in May 2006 with the author of this paper conducting the interviews of managers in the Malagasy Textile Sector. The process continued the following year (May-July 2007) and resumed again during January 2009 to March 2009. The deterioration in the political situation in Madagascar led to the departure of the author from Madagascar in March 2009. However, the on-site data collection continued through the assistance of a Malagasy university student. The documents examined were obtained in Madagascar as well as in the United States. When the political violence subsided, the data collecting author went back to Madagascar in the summer of 2010, six months after Madagascar's suspension from the benefits of AGOA, and conducted further interviews, which continued until December 2011, to gain an understanding of the impact of the suspension. During our four phases of interviews, we interviewed a total of 24 executives and managers directly associated with the Malagasy apparel and textile sector. A few people were interviewed multiple times- before, during, and after the crisis.

The interviews were conducted following a standard procedure, by the same interviewer, except in one case, thus ensuring a high degree of reliability (Gibbs, 2007). As to validity, the interviewer cross-checked and triangulated information obtained through interviews with published and unpublished documents, bringing contradictions to the attention of the participants and seeking further clarifications. This process led not only to dispel factual ambiguities, but also to attain a deeper understanding of the situation.

In addition to information and insights gained from the interviews, we also used data provided by the GEFP. Out of its 92 GEFP member firms, 74 are EPZ firms and 18 are associated enterprises (Partenaires). A few EPZ firms do not belong to the GEFP. Among the 74 EPZ member firms, 47 (or 64%) belong to the textile and apparel sector. The second largest category is constituted by 10 data processing firms (14%). The remaining 17 are active in a number of sectors such as packaging, woodworking, handicrafts, etc., each activity represented by no more than 3 firms (GEFP, 2009). Nearly 4 in 5 EPZ firms surveyed in 2008 reported total annual sales of US $2.5 million or less. The average number of employees was just below 500.

6. Analysis and Discussion

This section is based on the contributions made by the managers who participated in this study. The insights gained from our interviews were complemented with findings from previous research for the analysis- both short- and medium and long-term.

The Short Term Outlook

The concerns expressed during the interviews conducted before the suspension of Madagascar from AGOA can be summarized in four points. First, a consensus emerged among interviewees that the loss of the preferential access to the US market would be devastating and possibly fatal to the Madagascar textile industry. Madagascar would cease being competitive in global markets and buyers may direct their orders elsewhere. Second, the negative effects of the rise in the cost of the landed goods in consumer markets will be further compounded by a shrinking global demand and increasingly cost conscious consumers. Third, tens of thousands of jobs may be lost in a country that is already reeling from the effects of the global economic downturn and many structural obstacles to economic development. Finally, the suspension from AGOA benefits may result in capital flight.

During our final phase of interviews in the summer of 2010 when the suspension from AGOA benefits was in effect for over five months, Julie Ratsimisetra, General Secretary of GEFP, the trade group for EPZ firms, reported a large number of closures of textile firms since the suspension came into effect, thus confirming the apprehensions expressed by many of our interviewees during the first phase of data collection. An examination of the export figures of Malagasy apparel and textiles to the US also show a drastic decline, thus validating fears expressed by many of our interviewees. As shown in Table 1 earlier, the total export of textile products dropped significantly since Madagascar's suspension from the AGOA benefits. According to Ratsimisetra, (2010) Malagasy firms are now mostly supplying the backlog of orders and not receiving any new orders from the US buyers.

Another representative of GEFP reported that a significant capital flight from the Madagascar textile has already taken place. Given that most of the contract manufacturers in the textile and apparel sector of Madagascar are from foreign countries such as China, France, Mauritius, etc., it was not surprising that such investors would leave Madagascar in the wake of its suspension from the AGOA. The same interviewee also reported that some of these departing foreign investors are also offering to relocate the most productive Malagasy workers to their new factories being set up in other countries such as Tanzania.

It may be mentioned here that during the third round of interviews just before Madagascar's suspension from AGOA, a few optimistic interviewees pointed out that the Malagasy textile sector quickly rebounded from a previous political crisis in 2002 and expressed the hope that the same thing would happen again. They reposed faith in resilience of the textile sector. However, during the final round of interviews, the interviewees were much gloomier in their assessment of the future of the industry.

Another potential problem also came to the surface during the interviews was that even if the duty free access for Malagasy textiles is restored immediately, the looming end of the 'Third Country Provision' in September 2012 may dissuade investors from returning to Madagascar. Malagasy products will not be competitive in the absence of the manufacturers' freedom to buy inputs from the lowest cost suppliers.

Medium and Long Term Perspectives

From an economic development perspective, one questions confronting the Malagasy policymakers is if the apparel industry can effectively trigger a "virtuous cycle" for Madagascar, a process that generates not just employment, but transfer of skills, the generation of linkages with the broader economy, vertical integration through the emergence of local suppliers increasingly capable of meeting the needs of the industry and, finally, some participation in marketing efforts to ensure a presence in a broader spectrum of activities along the value chain. In other words, can the Mauritian success story be replicated in Madagascar? Some of the observations made by our interviewees in this regard are:

Abundant, Inexpensive and Capable Labor: A Source of Comparative Advantage: Interviews with business owners, foreign investors, and industry trade representatives (e.g., Cua, 2007; Hargreaves, 2007 & 2009; GEFP 2007; Text'Ile Mada 2007) all point to one critical factor in the selection of Madagascar as a production site for apparel manufacturing: the abundance of an inexpensive and trainable workforce. We found that nearly all Malagasy apparel manufacturers are in the Analamanga region where the capital city of Antananarivo is located. Antananarivo is located away from the coast and goods must be shipped over a two-lane highway to the port of Toamasina, at considerable expense. A major obstacle to the growth of the sector, as pointed out by our interviewees, is the high transportation costs between Antananarivo and the port of Toamasina. The transportation cost between the two cities was \$1000 per container (Mee, 2004) compared with only \$250 per container for the sea transport between Toamasina and Mauritius. The cost of transportation does not concern only finished products, but also affects inputs imported from China, Sri Lanka, Pakistan and Hong Kong that must be transported inland to the factories at a very high cost. It is estimated that over 75% of inputs used by Zone Franche companies are imported (Rakotomanga, 2006). According to some interviewees, a solution to this long, expensive, and cumbersome transportation process lies in developing local suppliers of fabric. Cotona is currently the sole producer of yarn and fabric in Madagascar. More than 60% of its productions are delivered to Zone Franche companies, but those supplies represent just a small fraction of the needs of the apparel firms- about 8% in value- and the rest must be imported (Mee, 2004). There is a dire need for additional textile mills in Madagascar, but the prerequisite to such expansion of the local supply base, which could potentially free Madagascar and other regional producers from their dependence on the Special Rule provision of AGOA, is the ability to supply power. Such ability does not exist at present in Madagascar and is itself contingent on an increase in the production of power through large investments in the energy sector. Madagascar currently does not have the means to make such commitments.

Madagascar's labor rate of \$.40 per hour is very competitive, especially when compared to neighboring Mauritius's \$1.33 per hour (Rakotomanana & Rajaobelina, 2008). However, the productivity of Malagasy labor is far lower than that of many competitors. For example Malagasy export value per worker ($5,410) was less than half that of Mauritius ($ 11,590) in 2007 (EDBM communication, 2007). Most Malagasy workers are trained on the job and the lack of adequate formal training facilities is being felt, especially as far as foremen and technicians are concerned. Indeed, while there is an abundance of unskilled female workers that can be easily trained within a week or two, there is a shortage of more specialized labor. There is a shortage of quality control specialists and personnel capable of maintaining machinery. In addition, there is a high turnover of workers (Hargreaves, 2007; Bohan, 2007).

Table 2: Cost of Inputs (in US$) in Three Apparel Producing Countries

Input	Madagascar	Mauritius	Sri Lanka
Electrical Power (watt)	.09	.05	.05
Water (m^3)	.039	.29	.36
Industrial Rent (m^2)	3.5-14.8	1.82-2.27	-
Local Telephone call (3 minutes)	.08	.03	.04
Telephone call to the USA (3 minuted)	2.84	4	3.05
Internet (minute)	.04	.38	.05

[Source: MECI/Table Ronde sef 2007, as cited in Rakotomanana and Rajaobelina (2008)]

Impediments to Competitiveness and Economic Development: The availability and cost of utilities in Madagascar represent a major challenge for apparel manufacturers. The ability of JIRAMA (the Malagasy utility company) to provide reliable and inexpensive electric power is hampered by the lack of investment in the energy sector. As can be seen in Table 2 below, the costs of utilities, industrial rent and communications is higher in Madagascar than in neighboring Mauritius or in Sri Lanka, both major producers of garments. The state of power generation in Madagascar is poor and the pricing policy for electricity, according to one of our interviewees Mr. Giblain (2009), who was the Director General of the leading Malagasy Textile firm Cotona, is unfriendly to business and amounts to an indirect subsidy for household electricity consumption.

Beyond the problem of cost, there are the issues of reliability of supply and quality. Rolling blackouts are a fact of life in Madagascar. Occasional surges in the flow of power are often blamed for the degradation of industrial equipment.

Our interviewees also identified a few other areas of concern that may be simpler to address. These include: administrative delays and red tape, ambiguities over the legal framework, especially ownership of land, dispute resolution processes, fiscal uncertainties, frequent political instability, etc.

Critical Mass and Industry Life Cycle: According to one of our interviewees, C. Giblain, former Director General of Cotona, the Malagasy textile industry has not achieved the critical mass, which is a prerequisite for building synergies, fostering and sustaining an indigenous supplier base, obtaining a modicum of bargaining power vis-à-vis powerful retailers in the value chain (Gibbon, 2003). The number of textile firms is relatively small and their commitment to Madagascar is at best uncertain. Under these circumstances, the vulnerability of the industry to external and internal challenges remains high. Even the ability of the industry to significantly influence political outcomes within Madagascar, in particular the move toward national elections which constitutes a sine qua non condition for the restoration of Madagascar's membership in AGOA, seems to be limited, as the repeated warnings of the GEFP have fallen on deaf ears, and the political process remains deadlocked at the time of writing.

The concept of industry life cycle provides a different perspective on the future of the Malagasy textile and apparel industry. The conditions that gave rise to the birth of the industry may not suffice to perpetuate its existence. Further, these conditions change themselves over time (Hargreaves, 2009). In addition, circumstances in the world market are prone to change, in particular, the relentless pressure for cost competitiveness is bound to continue and even accelerate as cost-conscious consumers lower spending following the global recession. The response of the industry to such challenges may prolong or shorten the industry life cycle.

The Apparel Industry and the Challenge of Economic Development in Madagascar: Many of the difficulties facing the apparel industry are directly linked to the inadequacies, shortcomings and weaknesses that characterize least developed countries and bedevil economic growth. From pervasive red tape (Ratsifaritana, 2009) to political instability, so vividly illustrated by the crisis of 2009, the institutional and political framework in Madagascar remain very fragile. Inadequate roads, port and airport facilities translate into higher costs of production across all sectors. However, the textile and apparels sector is particularly vulnerable to slow or unreliable delivery due to poor transportation, since on-time and fast delivery is a condition for competitiveness in the fashion- sensitive apparel industry (Cadot & Nasir, 2001).

Finance and banking represent yet another major challenge for many firms in Madagascar. Access to credit is limited and its costs are high (Cadot & Nasir 2001). Letters of credit are very difficult, or even "almost impossible" to obtain, according to our interviewees- a fact also documented earlier by Ratsifaritana (2009).

As to the role of the apparel industry in Madagascar's economic development, evidence from both Madagascar and neighboring countries indicate that this sector offers an avenue for less developed countries to integrate with the world economy. In Mauritius, apparel production marked the early stages of development, and was later complemented by a host of other activities, in an increasingly diversified economy (Berthelemy & Soderling 2000). Apparel production is indeed often the first rung in the ladder of economic development. It generates many employment opportunities in a country where such opportunities are rare. As an industrial activity, it triggers a process whereby unskilled labor shifts from the informal economy to more stable work. As a result, new behaviors are adopted. The learning pro cess is not just about abilities and technical skills, but at a more fundamental level, adopting the discipline required from industrial workers. The latter is indeed a sine qua non condition for economic development and productivity increases.

The Foreign Investor's Perspective: The political upheaval of 2009 did little to improve the perception of Madagascar as a high risk country for investment. As the facilities of wholesalers and retailers, many foreign-owned, were looted and burned to the ground, the prospects of Madagascar for attracting investors seemed to be devastated along with its physical installations. While not disputing the negative impact of the violations of property rights and a climate of political uncertainty, we argue that foreign investors are attracted by a host of conditions and circumstances. Any single issue is unlikely to have much explanatory power in and of itself. Moreover, all investors are not created equal. In Madagascar, Mauritian and French investors are likely to be more risk-tolerant, compared to Asian or American investors. It is noteworthy that within weeks of having its furniture stores looted in January 2009, the Mauritian-owned chain Courts was back in operation. French-owned supermarkets Jumbo-Score also reopened within months of the looting and burning of their facilities. Yet another factor influencing investors' decisions may be the length of their presence in Madagascar.

7. Recommendations

To cope with such short term challenges, managers working in the Malagasy textile and apparel can take a two prong approach: one internationally, and one domestically. Internationally, they should continue lobbying with the US government to allow duty free access to Malagasy textile and apparel products. Hiring professional lobbyists in Washington DC, which is a common practice for many other countries trying to market their products in the US, should also be explored by Malagasy textile exporters. Domestically, they should try to influence the key players in the Malagasy government to take measures to restore democracy at the shortest possible time.

Beyond the immediate crisis, there are fundamental questions that remain to be answered. What role does Malagasy textile and apparel exports play in the country's development strategy? What conditions are necessary to unleash the full potential of the sector? What are the key obstacles to competitiveness and how can they be addressed? Can Madagascar continue to attract foreign direct investment? If Malagasy textile sector collapses, what impact it would have on countries such as Lesotho, Swaziland and Mauritius which supply fabrics and accessories to Madagascar?

Madagascar's producers have been order-takers who have been largely excluded from the more lucrative marketing and branding processes in the value chain, This situation is, of course, not unique to Madagascar and reflect the realities of the global value chain (Gibbon & Ponte, 2005). Over the last few years, joint efforts have been made to promote Malagasy products, in particular through participation in industry trade fairs and salons. A cluster called "Text'Ile Mada" has been put in place and over 20 firms have joined to pool their resources in an effort to overcome the disadvantages associated with small size. The image of Madagascar and, by extension, its producers, has been seriously damaged after months of political strife in 2009 and its eventual suspension from the list of AGOA eligible countries. A major effort of communication is needed to re-conquer lost ground and dispel any misperception.

8. Conclusions and Directions for Future Research

Faced with multiple political uncertainties and a weakening global demand, Malagasy apparel and textile exporters may yet experience additional setbacks, in addition to the loss of free access to the US market that has already caused, to quote one of interviewees, "unprecedented and the biggest challenge in their short history". The elimination of the Zone Franche status may spur new investors to look elsewhere. The elimination of the Zone Franche status, agreed to by the Malagasy government under the pressure exerted by donor agencies, is rooted in the ideological controversy over EPZs being a "second best" solution that introduces distortions of its own. These arguments have lost potency amidst a general skepticism toward the economic orthodoxy preached by international financial organizations. Faced with the current global downturn, there are signs that these organizations themselves are turning toward less radical policy recommendations. As far as Madagascar is concerned, the country's deficient institutions and infrastructure, do not allow a general liberalization of the economy to have the desired effects and the "second best" may in fact be the only real choice available. It must also be said that the move toward an elimination of the Zones Franches seems also to be particularly ill-timed as the country is reeling from internal and external crises. It must be hoped that the new law on exports will be amended and modified. Certainly, the trade association representing Zone Franche firms, GEFP, will continue its battle to have the phasing out of the EPZ status reversed.

The structural problems bedeviling the Malagasy economy are comparable to similar challenges in other least developed countries. The analysis of these "internal obstacles" to development is beyond the scope of this paper, although their negative effects on the growth and prosperity of the export sector and the creation of a catalyst effect are undeniable.

Future research could pursue two broad avenues of investigation: one stream could provide further depth to the understanding of the Malagasy situation, while the other would be oriented toward a comparison across textile producing African countries to tease out similarities and differences and draw lessons from them.

The first approach, i.e., a magnified look at the Malagasy Zones Franches, could seek to shed light on some of the questions left unanswered in the present study. For example, research could establish the differences in risk perception among foreign investors, according to their national origin or their familiarity and experience with the Malagasy environment. It will also be instructive to examine the coping and adaptation strategies adopted by exporters, following the suspension of the participation of Madagascar in AGOA. The results of such investigations could benefit a number of stakeholders in Madagascar and beyond, ranging from government officials, investors, donor country and NGO decision-makers, industry operators and academics.

A second stream of research could coalesce around cross-country comparisons in Africa and beyond. Concern about a "race to the bottom" has been expressed to warn about African countries outbidding each other to attract foreign investments (Jauch, 2002). The pertinence of such alarm needs to be evaluated. Is the concentration of power in the global apparel and 'textile value chains so much in favor of the final buyers in the developed world, that all attempts at vertical integration are doomed? Could African economic integration through groupings such as SADC favor the emergence of upstream production facilities (production of yarn and fabric)? Does such integration offer the possibility for the African textile industry to survive and prosper after the expiration of the Special Rule provision of AGOA? In light of the Malagasy crisis, it is also of utmost importance to establish to what degree other least developed countries, in particular apparel producing AGOA members, are vulnerable to similar upheavals.

It may be mentioned here that the continuation of trade benefits under AGOA in the longer horizon is not just critical for Madagascar. It is also vital for the long term interest of the US and its engagement with Sub-Saharan Africa. The accomplishments of a decade of active engagement cannot be allowed to unravel without a serious effort to avert it. Researchers should also examine if suspension actually achieves the goals it is intended to achieve.

While much work lay ahead, this paper is offered as a case study demonstrating the struggle of a developing country in the face of external challenges that it is unable to cope with. It is hoped that this study would generate further research interest in examining how US international trade policy may affect the export marketing and economic well-being of other countries. It is also hoped that this study would generate further interest in identifying influence strategies that a developing country can use to cope with such externalities.

Notes:

[1]This study was supported by a Fulbright Scholarship accorded to the author.

[2]The word Malagasy designate the people as well as the language of Madagascar, and in a broader sense, is the adjective designating anything coming from Madagascar.

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