NEW REALITIES: BUSINESS DYNAMICS AT THE FRONTIERS OF GLOBALIZATION

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Chapter 6

Textiles and clothing in Madagascar

Fabrice Lehmann

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Textiles and Clothing in Madagascar: Groupe SOCOTA and Sustainability in Global Value Chains

Fabrice Lehmann

At 6:20, morning prayers followed by the national anthem and traditional Malagasy chants led by a choir and sung by hundreds of machine operators, resound through Socota's garment factory in Antsirabé. This daily custom was introduced at the request of workers to start their shift. After a minute of shuffling and silence, the buzz of two thousand cutters, sewers and pressers gradually builds to a crescendo that animates the plant until dusk when the night shift moves in. Meanwhile, in the adjacent textile factory within the high walls of the industrial complex, heavy cotton-weaving machinery stutters loudly as the dyeing and finishing equipment hisses under high-pressure steam and rolls out yards of fabric destined to be assembled and shipped to retail stores around the globe.

Groupe SOCOTA

Socota is something of a rarity in the sub-Saharan African textiles and clothing industrial landscape. The company's distinctiveness stems from the capacity it has shown to reinvent itself in response to successive political and regulatory shocks and adapt to the rapid evolution of intensely competitive world markets. In the process, Socota has evolved from a cotton field-to-fabric producer feeding the domestic textile market to a vertically integrated clothing manufacturer oriented toward exports. In 2013, the company generated US$80 million in revenues.

Socota's successful diversification and entry in the global apparel value chain has achieved both economic and social upgrading with a commitment to sound labor and environmental practices in one of the world's poorest nations. The company's resilience is testimony to a corporate culture guided by a desire to unite managers and workers under common goals.

Salim Ismaïl, chairman and CEO of Socota, who has successfully steered the family-controlled firm through turbulent waters for a quarter of a century, recognizes that the company stands at an important junction in its development. Madagascar returned to constitutional order in 2014 after five years of political crisis that saw the Indian Ocean state ostracized from much of the international community and experience a steep socio-economic downturn. Meanwhile, the evolution of world demand and changing supply structures driven by cost pressures in major producer nations, notably China, have provided opportunities for investment in plant and equipment upgrade, capacity expansion and employment creation in Socota's fabric and garment divisions.

Can Socota continue to compete against Asian suppliers in global and regional markets while swimming against a tide of poor domestic governance, substandard infrastructure and human resource constraints? To what extent will ethical sourcing and Socota's adherence to high social standards feed its expansion? Will the firm's deepened integration between its fabric and garment divisions allow it to develop a competitive edge in offering quality services to the ever-demanding lead firms – brand owners and multinational retailers – that are consolidating and rationalizing their supply chains?

The ambitious medium-term scenario Socota executives examined in late 2014 was to double the workforce on Socota's industrial site in the municipality of Antsirabé located on the central highlands of Madagascar. Employment was expected to rise from roughly 5,000 to 10,000 workers while annual garment production was to expand from 6 to 12 million items (see **Table 6.1**).

GROUPE SOCOTA Vertical integration from cotton fabrics to finished garments 10-hectare industrial site containing:	
65,000 m² textile mill (COTONA)	**25,000 m² garment factory (COTTONLINE)**
Specialists in woven cotton fabrics	Men's, ladies' and children's tops
Yarn-dyed, piece-dyed and print fabric	Men's, ladies' and children's bottoms
In-house design team	Skirts and dresses
Weight range: 55 g/m² – 300 g/m² (thickness)	Nightwear and loungewear
16 million meter per year capacity	500,000 pieces per month (6 million per year)
785 employees	4,300 employees
Additional 250–300 employees in support services (e.g. security)	

Table 6.1: Overview of Socota fabric and garment divisions (2014) Source: Socota

FACETS OF UNCERTAINTY

Salim Ismaïl is at the helm of an unusual firm for a sub-Saharan African low-income country. Textiles and clothing are two distinct sectors with very different economic characteristics, especially regarding industrial know-how, technology and factor intensity in terms of labor and capital. Socota's vertically integrated operations are atypical for three reasons.

First, the general trend in textiles and clothing production chains has been one of specialization and fragmentation between the manufacture of capital-intensive intermediate goods and the assembly of labor-intensive products. World textiles and clothing production chains are highly fragmented as raw materials (fiber), intermediate goods (yarn, fabrics, trims) and end products (garments) can be produced independently and

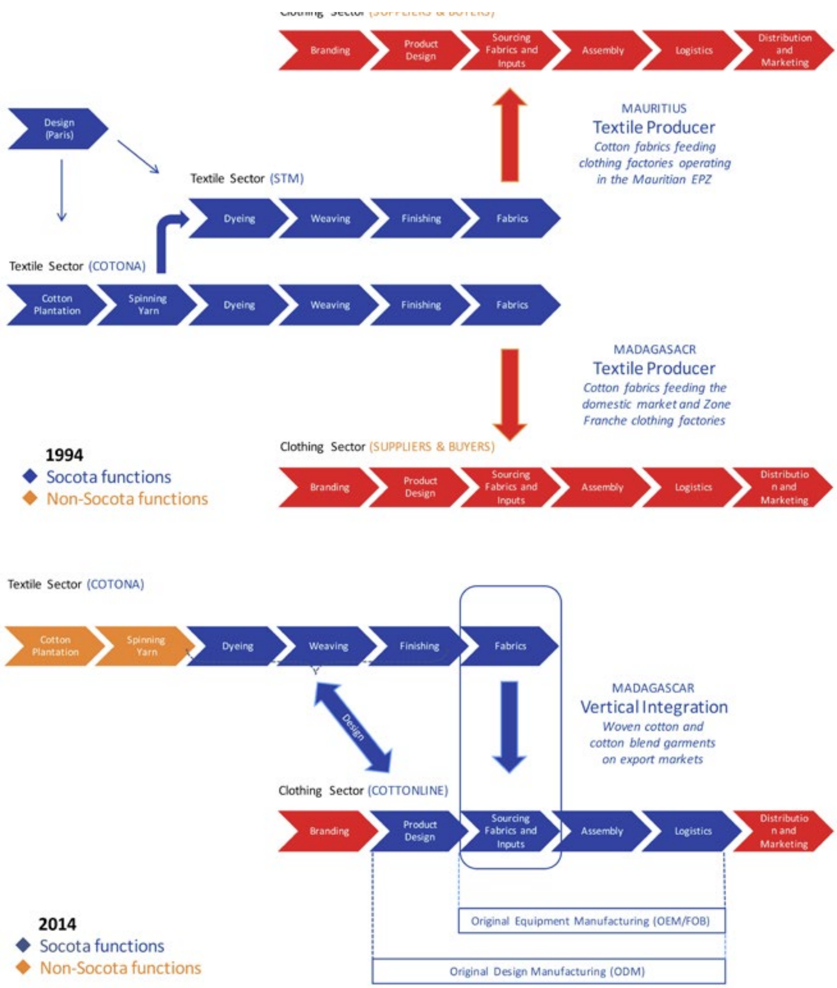


Figure 6.1: Socota value chain (1994 vs. 2014) Source: Author

exported at each stage of the chain.[1] Second, large-scale woven textile production has essentially proved to be beyond the capacity of African low-income countries due to high capital requirements and infrastructure needs, namely energy and water. Third, Socota has captured value-adding functions within the global apparel value chain, an uncommon feature for an African low-income country garment manufacturer (see **Figure 6.1**).

Socota's industrial expansion in Madagascar has been achieved in an environment of instability and uncertainty at multiple levels. Internationally, the firm has adapted to deep changes in trade rules following the end of the Multi-Fibre Arrangement (MFA),[2] a profound reorganization of global production and distribution networks, fast-moving Asian competitors and the fallout of the global financial crisis. Meanwhile, domestically, the company experienced the shock of nationalization in the 1970s. Then, following re-privatization in 1989, Socota's operations withstood recurrent political crises that rocked the impoverished island and hindered the nation's economic take-off (see **Figure 6.2**).

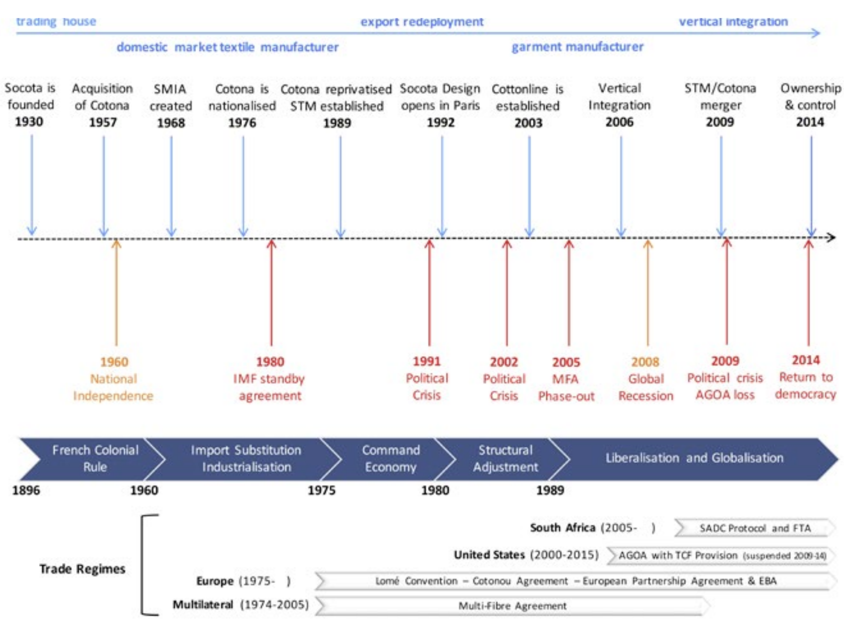


Figure 6.2: Socota and Madagascar timeline (1930–2014) Source: Author

[1] In 2010, apparel was the third most important industry after electronics and automotive as measured by the value of trade in intermediate goods.

[2] The MFA was a system of quotas on the import of textiles and clothing that governed world trade from 1974-2005. It was designed to protect producers in developed countries from large Asian suppliers.

Socota history

Socota is deeply embedded in the developmental history of Madagascar. In particular, its textile mill, Cotona, is known throughout the island as one of the long-established flagships of domestic industry. Its garment factory, Cottonline, has become one of the largest clothing manufacturers on the island. The company's rich history and eventful trajectory can be divided into seven overlapping phases.

1930–1960: In 1930, Mamad and Hassam Ismaïl founded Socota (Société Commerciale de Tananarive) in Madagascar's capital city. The brothers, born in India, were the relatives of a wave of Indian immigrants from Gujarat who had sailed, along with numerous compatriots, to settle on the east African shores of the Indian Ocean during the second half of the 19th century. Socota was a trading company specialized in the import of textiles. In 1957, three years before Madagascar gained independence from French colonial rule, Socota acquired a textile factory in Antsirabé, which marked the beginning of its industrial journey.

1960–1976: The textile mill was renamed Cotona (La Cotonnière d'Antsirabé) and became one of the jewels in Madagascar's economic crown while the country pursued a post-independence import-substitution industrialization strategy. The mill was transformed into an integrated manufacturing complex (spinning, dyeing, weaving, printing and finishing) that produced cotton dyed and printed fabrics for the Madagascan market, which was relatively shielded from foreign competition. By the early 1970s, under the stewardship of Mamad Ismaïl, Cotona came to supply 60% of domestic demand.

1976–1989: Socota experienced its first major shock when Cotona was nationalized in 1976 by a newly installed Marxist government. In 1978, the group resumed operational management by reaching a joint-venture agreement with the State in which Socota held a minority share. Cotona, supported by the supply of domestically grown cotton, which was controlled by another nationalized company, Hasyma, continued to dominate the domestic market. During this period, Socota acquired and developed a cotton plantation in the northwest of the country to feed its spinning operations, thereby completing the integration of its operations from cotton field to finished fabrics. In 1985 Socota carried out a feasibility study for the establishment of a textile mill in neighboring Mauritius. Throughout the 1980s acute balance of payments deficits pushed Madagascar to alter its developmental course and conform to the structural adjustment requirements of IMF agreements and World Bank loans.

1989–2000: Internationalization and redeployment characterize the fourth phase. Salim Ismaïl succeeded his father as chairman the year Socota regained control of Cotona, which was reprivatized in 1989.[3] That year also marked Socota's internationalization when the group opened a fabric mill in Mauritius, Socota Textile Mills (STM), which supplied garment manufacturers in the Mauritian export processing zone (EPZ). Madagascar accelerated its liberalization and export-oriented program, which included the removal of trade barriers and the establishment of an EPZ (Zone Franche Malgache). One of the immediate effects of opening to international trade was a surge in second-hand and fraudulent clothing imports. With the exception of Cotona, whose market share nosedived between 1989 and 1991, almost all the textile manufacturers on the island eventually went bankrupt. Confronted with the prospect of Cotona's collapse, Socota opted to redeploy toward export markets. In 1992, Socota established a marketing-and-design office, Socota Design, at the heart of its European markets in Paris. As the 1990s progressed, Cotona became an important supplier for the growing apparel export sector in the Zone Franche Malgache.

2000–2006: At the turn of the century, Socota diversified by branching out into garment production.[4] This phase was marked by a political crisis in 2002 that had a debilitating impact on Madagascar's apparel sector. The period was also marked by two regulatory shifts that influenced the fortunes of the textiles and clothing industry in Madagascar and sub-Saharan Africa more broadly. The first was the enactment in 2000 of the African Growth and Opportunity Act. The second was the phase-out in 2005 of the MFA. Socota acquired know-how in garment production by entering equity agreements with international partners from Sri Lanka and the US, which led to the creation of Cottonline, Socota's garment factory. In 2006, Cottonline was restructured under the equal ownership of Socota and the US shareholder when the Sri Lankan partners disinvested from Madagascar.

2006–2009: As managing partner of Cottonline, Socota commenced a strategy of vertical integration in which fabric produced by Cotona gradually substituted imported textiles to feed its garment factory. This phase in Socota's restructuring was favorably influenced by Madagascar's entry into the Southern African Development Community (SADC). Apparel duties were

[3] The State of Madagascar retained a minority share.

[4] From this period onwards, Socota diversified into new sectors of economic activity. The group extended its operations into aquaculture, an important economic sector in Madagascar, and seafood distribution. Socota also opened new lines of business in real estate in Mauritius and Madagascar as well as an agricultural project.

eliminated and Socota diversified its end-markets. However, two shocks would mark the period. The first was the 2008 financial crisis, which led to depressed demand in major markets. The second was a political coup in 2009. The transition government failed to gain international recognition and the Indian Ocean state was excluded from the African Growth and Opportunity Act (AGOA) and assistance programs.[5] The loss of US preferences forced Socota to redirect a large share of its garment capacity, which it achieved by increasing its penetration in South Africa. Other firms proved less resilient. Many factories in the Zone Franche indefinitely closed shop and tens of thousands of jobs were lost.

2009–2014: Against a backdrop of political uncertainty, world recession and the loss of preferential access to the US, Socota continued to push its integration and grow. STM ceased its activities and merged with Cotona on the industrial site in Antsirabé. This allowed Socota to create economies of scale and expand its product range on apparel export markets. A development of note was that the group decided to suspend its spinning operations. The deficient quality of energy supply in Madagascar meant that spinning was no longer competitive against imported yarn. The closure implied that Madagascar no longer held any large-scale spinning capacity and that cotton production on the island, which had entered a period of secular decline since the 1990s, could no longer rely on a domestic industrial outlet.[6]

The seventh phase in Socota's history concluded when it bought the remaining shares of Cottonline from its US partner, enabling it to focus independently on merging its textiles and clothing operations. In early 2014, Madagascar held elections signaling a return to constitutional order, although the underlying weaknesses behind the country's underdevelopment and political volatility remained major concerns. AGOA was reinstated and negotiations for the resumption of international aid programs were set in motion. Cottonline had become one of the largest clothing manufacturers on the island and Cotona was the only industrial woven textile mill in operation.

[5] In March 2009, after months of unrest and standoff between President Ravalomanana and the Mayor of Antananarivo, Andry Rajoelina, power was seized by the military, which proclaimed Rajoelina head of a "Transition Authority." Rajoelina dissolved Parliament and governed Madagascar until January 2014. Prior to the coup, aid accounted for 50% of the state budget.

[6] Socota stopped producing cotton in 2003. Hasyma, which had also been re-privatized, would eventually go into administration. The sector received a lifeline in the 2010s with an injection of Chinese capital. Tianli Spinning invested to feed its spinning activities in Mauritius. The yarn produced by Tianli is sold to Mauritian and South African textile mills as well as Cotona in Madagascar.

International uncertainty: Trade rules and sourcing networks

For three decades (1974–2005) the MFA governed world trade in textiles and clothing. The industry was brought under the jurisdiction of the WTO in 1995 and a ten-year transitional period for bilaterally negotiated quota removals, the Agreement on Textiles and Clothing, was ratified. By 2005, most of the quotas that regulated the industry had been phased out, although the EU and US imposed safeguards on Chinese imports that remained in place until 2009.

The MFA phase-out led to a profound reorganization of textiles and clothing value chains. International sourcing and production networks underwent huge shifts since buyers could source their garments, and suppliers their intermediate goods (yarn and fabrics), anywhere in the world and in any volume limited only by tariffs. This altered the competitive dynamics of producing nations and led to a migration of labor-intensive apparel production – referred to within the industry as a "caravan journey" – toward productive and low-cost Asian exporters such as Bangladesh, Vietnam and India. China was the overwhelming beneficiary in terms of market penetration in both textiles and clothing. By 2012, China's share in world clothing exports had surged to nearly 40% and had reached over a third in textiles (see **Table 6.2**).

	Value $ billion		Share in world exports (%)			Annual % change
	2000	2012	1990	2000	2012	2005-12
China (a)	36	160	8.9	18.2	37.8	12
EU 27	56	109	–	28.4	25.8	3
extra-EU 27	13	29	–	6.6	6.8	6
Hong Kong (c)	–	23	–	–	–	–
Bangladesh (b)	5	20	0.6	2.6	4.7	16
Turkey	6	14	3.1	3.3	3.4	3
Vietnam (b)	2	14	–	0.9	3.3	17
India	6	14	2	3.0	3.3	7
Indonesia	5	8	1.5	2.4	1.8	6
US	9	6	2.4	4.4	1.3	2
Malaysia (a)	2	5	1.2	1.1	1.1	9
Mexico (a)	1	4	0.5	4.4	1.1	-7
Cambodia	1	4	–	0.5	1.0	10
Thailand	4	4	2.5	1.9	1.0	1
Pakistan	2	2	0.9	1.1	1.0	2
Sri Lanka	3	4	0.6	1.4	0.9	5
Above 15	–	370	–	78.7	87.5	–
World	198	423	–	–	–	6

(a) Includes significant shipments through processing zones (b) Some years include Secretariat estimates (c) Mainly re-exports

Table 6.2: Changing market positions of leading exporters of clothing

Source: Author, based on material provided by ©World Trade Organization (WTO) (2013)

The textiles and clothing value chain has evolved over the years into a buyer-driven production network governed by lead firms organized as retailers and brand owners (see **Table 6.3**). The chain is marked by power asymmetries between the producers and buyers of end products. Lead firms, increasingly operating as organizational buyers, perform most of the value-adding activities such as R&D, design, branding and retailing, while manufacturing functions are outsourced to a dispersed network of competing supplier firms predominantly found in developing nations. Intermediaries such as sourcing agents and full-package service providers play an important role in coordinating these transnational production networks. Moreover, the retail industry has witnessed a high degree of consolidation. Analysts estimate that 20% of retailers, roughly 30 companies, account for 80% of world apparel retail sales.

Lead firm type	Type of brand	Description	Examples	
			US	EU
Retailers: mass merchants	Private label: The retailer owns or licenses the final product brand, but in almost all cases, does not own manufacturing.	Department/discount stores carrying private label, exclusive, or licensed brands that are only available in the retailers' stores in addition to other brands.	Walmart, Target, Sears, Macy's, JC Penney, Kohl's & Dillard's	Asda (Walmart), Tesco, C&A, Marks & Spencer
Retailers: speciality apparel		Retailer develops proprietary label brands that commonly include the name of the store.	Gap, Limited Brands, Abercrombie & Fitch	H&M, Benetton, Mango, New Look, Next
Brand marketer	National brand: The manufacturer is also the brand owner and goods are distributed through multiple retail outlets.	Firm owns the brand name, but not manufacturing, "manufacturers without factories." Products are sold at a variety of retail outlets.	Nike, Levi Strauss, Polo, Liz Claiborne	Ben Sherman, Hugo Boss, Diesel, Gucci
Brand manufacturer*		Firm owns brand name and manufacturing; typically coordinates supply of intermediate inputs to its production networks often in countries with reciprocal trade agreements	VF, Hanesbrands, Fruit of the Loom, Gildan	Inditex (Zara)

* The distinction between these firm types has blurred in recent years. Brand manufacturers, for example, have evolved since they increasingly outsource, directly or through intermediaries, manufacturing activities to a network of suppliers or transnational producers in order to focus on higher-value functions such as opening specialty retail stores.

Table 6.3: Lead firm and brand types with regional examples

Source: Gereffi and Frederick (2010)

The sourcing policies of buyers are thus essential in shaping global production and trade patterns. While the initial sourcing decisions of lead firms was predominantly driven by cost differentials, most notably labor arbitrage and market access conditions, evolving consumer patterns and retail industry reorganization – fast-fashion, lean retailing and quick response – have gradually led to more elaborate buyer-supplier relations. These include key considerations such as lead times and flexibility as well as the capacity of suppliers to deliver non-manufacturing functions in input sourcing and outbound logistics.

The post-MFA trend toward the consolidation and rationalization of supply chains driven by lead firm sourcing policies has been accelerated by the global financial crisis of 2008. Global buyers have further sought to reduce costs and reorganize their sourcing relations away from marginal producers and toward their more capable and efficient suppliers, which are mostly to be found in Asia and in proximity supplier nations. This restructuring in global apparel value chains has had negative implications for sub-Saharan African producer nations and firms, which have lost both market share and export value in the post-MFA environment (see **Tables 6.4** and **6.5**).

	1995	1997	2000	2002	2004	2005	2006	2007	2008	2009	2010
Total value of exports ($ millions)	1,337	1,293	2,089	2,288	3,235	2,796	2,765	2,995	2,826	2,271	2.040
Growth rate (%)	13.2	8.0	46.1	1.6	12.4	-13.6	-1.1	8.3	-5.7	-19.6	-10.2
Share of World (%)	0.7	0.8	1.1	1.1	1.3	1.0	1.0	0.9	0.8	0.8	0.6

Table 6.4: Sub-Saharan African apparel exports to the world

Source: DESA/UNSD, United Nations Comtrade database

	Value ($US million)							Share of total (%)		
	2000	2002	2004	2005	2007	2009	2010	2000	2005	2010
SSA Total	2,089	2,228	3,235	2,796	2,995	2,2271	2,040	–	–	–
Mauritius	960	902	958	807	959	817	769	45.9	28.9	37.7
Madagascar	368	240	561	539	696	578	378	17.6	19.3	18.5
Lesotho	153	348	494	422	414	303	318	7.3	15.1	15.6
Kenya	50	140	307	297	270	213	223	2.4	10.6	10.9
South Africa	396	428	477	335	312	166	174	19.0	12.0	8.5
Swaziland	37	102	191	170	143	100	99	1.8	6.1	4.8
Top six	–	–	–	–	–	–	–	94	92	96
Bangladesh	4,862	4,982	7,945	8,026	11,181	14,189	16,620	–	–	–
Cambodia	1,214	–	2,435	2,696	3,765	33,473	4,184	–	–	–
Vietnam	–	–	4,408	4,737	7,694	9,395	10,953	–	–	–

Table 6.5: Top six sub-Saharan African (SSA) apparel exporters

Source: Author, with material provided by DESA/UNSD, United Nations Comtrade database

Upgrading in the apparel global value chain in sub-Saharan Africa

Economic upgrading, also referred to as moving up the value chain, is a fundamental aspect of global value chain dynamics. It is defined as moving to higher-value activities in order to increase the benefits from participating in global production. The assumption is that by capturing value within the chain, boosting competitiveness and encouraging backward linkages in textile production, the apparel export sector can act as a springboard for industrial development and diversification.

Economic upgrading in the apparel value chain is commonly classified under four categories:

- Product upgrading – the ability to produce higher value goods;
- Process upgrading – improvements in efficiency and productivity;
- Functional upgrading – moving into higher value tasks of greater knowledge intensity;
- Chain upgrading – diversifying into higher value economic sectors.

Another critical dimension in stimulating the developmental potential and competitiveness of the clothing sector is supply chain upgrading, whereby backward linkages with the capital-intensive textiles sector are established.

Functional upgrading, which enables firms in developing countries to reap higher value activities while securing stronger relations with global buyers, is of particular importance to the organization of world textiles and clothing production. The main upgrading stages – which can be conceived as an upward trajectory where firms start at the low-cost assembly level and progressively acquire greater knowledge and capabilities – are as follows (see **Appendix 6.1** for more detail):

- CMT: Assembly or cut-make-trim;
- OEM: Full package or original equipment manufacturer, also referred to as free on board (FOB),[7] in which the manufacturer sources, or produces, the textile inputs and provides all production and logistical services for final assembly and delivery to retail outlets;
- ODM: Original design manufacturing, in which the manufacturer is involved in design and product development as well as input sourcing and logistical responsibilities;
- OBM: Original brand manufacturing, in which suppliers develop their own brand and marketing capabilities, initially in domestic or regional markets, by which stage assembly is often outsourced or subcontracted to low-cost producers.

As textiles and clothing sourcing networks evolve in the post-MFA environment, the dynamics of social upgrading and downgrading

[7] To be distinguished from the trade term FOB, in which the seller has an obligation to deliver goods for transfer to a carrier.

within the chain have come under increasing scrutiny. Cost pressure dynamics in the footloose apparel sector, characterized by minimal barriers to entry, implies that industry workers in poor countries are vulnerable to predatory practices and that economic upgrading does not automatically correlate with positive social outcomes. Social upgrading refers to improvements in the rights and entitlements of workers, especially in the lower-skilled segments of the labor-intensive clothing sector. These improvements can be divided into two dimensions:

- Measurable standards – wages, working hours, health and safety, contractual terms, social protection;
- Enabling rights – collective bargaining, freedom of association, non-discrimination (notably gender).

Although there are important variations and notable instances of upgrading at the level of the firm (such as Socota), sub-Saharan African low-income countries have generally struggled to achieve economic and social upgrading in the clothing sector following the MFA phase-out. They have also largely failed to develop backward linkages in domestic or regional textile production.

One of the reasons behind this underachievement is related to the manner in which these countries integrated production networks. In the 1990s and early 2000s, manufacturers from Asia – especially Taiwan and Hong Kong, but also India, which had reached their quota restrictions in leading markets under the MFA – invested in quota-hopping garment production in low-wage African LDCs that benefited from preferential market access to the EU and the US. Asian FDI and the advent of triangular manufacturing networks between Western-based buyers, Asian-based transnational producers and African-based CMT clothing manufacturers thus largely drove the apparel export sector.

In this international division of labor, most of the skill-intensive and value-adding functions remained either in Asia or in the West. Few spillovers materialized regarding the development of local firms, and investment in upstream production was limited, since textiles were mostly sourced from the Asian investor base.[8] As quotas were phased-out, many transnational producers redirected their

[8] Mauritius is an exception. This small island in the Indian Ocean embarked on an export-oriented growth strategy as early as the 1970s and established an EPZ in which producers, mostly from Hong Kong, invested in garment production for the European market. Mauritius subsequently developed a successful domestic textile and clothing industry with local firms that partly migrated to Madagascar in the 1990s and 2000s as labor costs rose and quotas reached saturation.

capital from Africa to more efficient sourcing hubs – although new producer networks between Chinese investors and emerging sub-Saharan African nations like Ethiopia have started to develop.

A second source of underperformance can be found in the evolution of lead firm sourcing policies guided by diminishing lead times and the rationalization of supply chains in which new factors of supplier competitiveness have come to the fore. These include a greater emphasis on flexibility and speed-to-market as well as capabilities that enable suppliers to broaden their range of manufacturing and non-manufacturing services.

This trend has led to a gradual shift in sourcing relations away from CMT suppliers, in which most low-income sub-Saharan African (SSA) firms remain concentrated, to full package OEM producers and service providers. Many African exporters find themselves at a competitive disadvantage in this new industry organization due a combination of factors that are both internal and external to the firm – for example, poor infrastructure, limited access to finance and quality inputs, low levels of productivity, scarcity of domestic textile production and a dearth of local skills that can sustain this upgrading into new functions.

Domestic uncertainty: Political instability and underdevelopment

Madagascar has failed in its economic take-off and is one of the world's poorest countries. Since independence in 1960, it has struggled to build a modern society and has defied global and regional trends by regressing in its development: per capita income has been in persistent decline and absolute poverty has risen. In recent decades, Madagascar has entered a cyclical pattern in which the nation's development and growth trajectory have repeatedly been derailed by unrest and political crises (1972, 1991, 2002 and 2009–2014).

In 2014, over 90% of its 23 million inhabitants lived below the $2-per-day poverty line and three-quarters were estimated to live in extreme poverty. Indicators such as child mortality, malnutrition and maternal health place the country in the bottom ranks of human development indices. Public service delivery is deficient and infrastructure derelict. The economy is dominated by informal and rural activities, with over three-quarters of the population engaged in agriculture, most of which consists of low-yielding subsistence farming. Furthermore, demographic trends point to a youth bulge, which means that for the upcoming generation the economy will have to absorb one of the world's highest annual increases in working age population.

The reasons behind Madagascar's grim economic and social performance are evidently multiple and complex – a combination of

- 23 million population with 4.6 fertility rate
- 92% of the population living below $2 per day
- $430 GNI per capita compared to $1,345 for SSA
- $49-51 per month formal sector minimum wage
- 80% waged workers living below poverty line
- 10% working population with secondary education
- Share of employment: agriculture 80%, industry 3%
- 5% of world biodiversity with over 80% endemism
- High vulnerability to natural risks and climate change

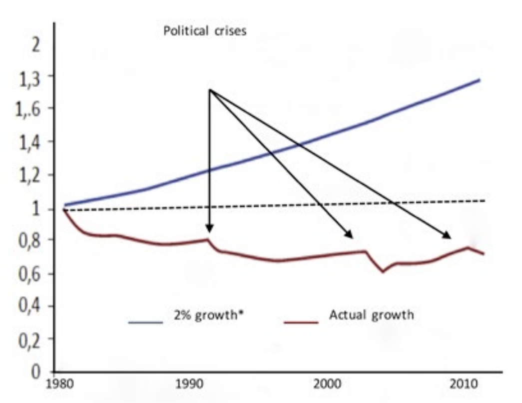
Source: rfi

Table 6.6: Selected Madagascar indicators (2013)
Source: World Bank (2013), UNCTAD (2013), ILO (2013), RFI

exogenous shocks, climate risks and local factors. However, the nation's ongoing legacy of poor governance and weak institutions has been a major impediment to unleashing Madagascar's potential (see **Table 6.6** and **Figure 6.3**).

Over the past quarter of a century, the textiles and clothing industry has been a rare source of formal employment and manufacturing growth in Madagascar. The sector differentiates itself from that in other low-income African supplier nations on account of five characteristics.

First, it has a diverse ownership structure. Around half of the estimated 50 to 60 firms operating in the Zone Franche Malgache are European-resident owned (mainly French), a quarter Mauritian, and the rest split between indigenous and Asian producers – although Asian investors have mostly disengaged following the MFA phase-out and political crises (figures refer to 2013). This implies that the industry is more locally embedded than in African LDCs dominated by transnational producers. Second, apparel producers in Madagascar have a diversified export base. Whereas SSA garment exporters are often concentrated on a single market and a narrow set of buyers, clothing produced on the island can be found in retail stores in the EU, US and South Africa (and even China in the case of Socota). Third, partly due to this diversification in end-markets, a number of firms in Madagascar export, on average, higher value products in terms of unit price



* Refers to a virtual 2% annual growth path

Figure 6.3: Crises and per capita growth
Source: Adapted from World Bank (2013)

than neighboring SSA countries like Lesotho. Fourth, wages are low, even for the region. However, average labor productivity remains below that of the most productive Asian suppliers although, again, some leading firms in the export sector, such as Socota, have similar levels of efficiency. Finally, the industry has been impacted by recurrent political shocks. This means that the sector's potential growth trajectory has repeatedly been disrupted, having had to restructure after each crisis from a lower base (see **Figure 6.4**).

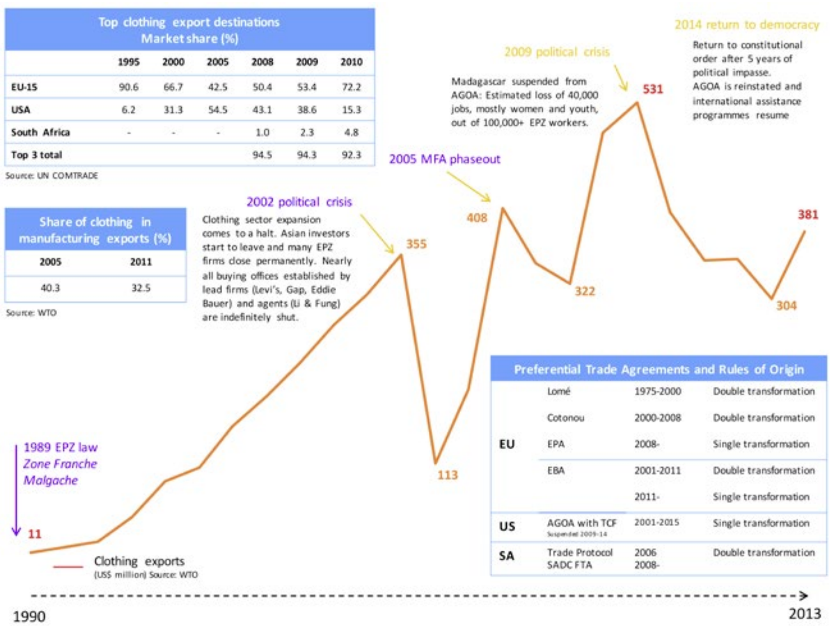


Figure 6.4: Madagascar's clothing exports

Source: Compiled by author using data from DESA/UNSD, United Nations Comtrade database, © World Trade Organization (WTO) 2013

During the 1980s and 1990s, the government in Antananarivo, advised by international financial institutions, implemented a policy framework of economic liberalization and export-led growth in which light manufacturing, especially clothing, was expected to play a central part. One of the planks of this policy was the establishment of the Zone Franche Malgache, with investment and business friendly regulations based on the regional EPZ example of Mauritius in the 1970s.[9] The thinking behind this development strategy was that apparel manufacturing would play a lead-role in reducing poverty and kick-

[9] The Zone Franche Malgache is a non-geographically confined regime. In order to qualify for tariff benefits and tax rebates, domestic and foreign firms have to export 95% of their production.

starting the industrialization process, as had been the case in several European and Asian countries. Garment production has few barriers to entry and the sector can rapidly create wage employment and generate foreign earnings while stimulating more knowledge-intensive activities and backward linkages in textile manufacturing. Indeed, Madagascar was endowed with raw material, a large pool of low-wage labor, existing capacity and know-how in textile production, and preferential access to European markets.

While the apparel export sector grew exponentially throughout the 1990s, spurred by Mauritian and Asian MFA quota-hopping investment as well as local initiatives, the linkage with the textile and cotton sectors was disrupted. The opening of Madagascar's textile industry to international competition led to a surge in fraudulent imports. It also exposed the uncompetitive nature of existing mills. With the exception of Cotona, which lost two-thirds of its market share and had to make a huge effort at upgrading equipment and product quality in order to redeploy production toward foreign markets, the island's textile industry went into near-terminal decline. Local capacity has since failed to regenerate due to Asian competition and the challenges inherent to fabric production in a volatile least-developed country (LDC) – for example, capital and knowledge constraints; reliable energy infrastructure; scale and predictability ensured by consistent levels of high-volume demand; security of long-term investment in a politically unstable country.

Madagascar's competitiveness in garment manufacturing rests essentially on two factors: labor costs and favorable access to leading retail markets.

First, labor cost differentials are an important source of competitiveness in apparel production as labor content can vary between 15% and 50% of total production costs (see **Table 6.7** for the cost structure of Socota). With minimal capital and technological barriers to entry, and tasks concentrated in low-skilled, labor-intensive activities, firms either invest in or source from low-wage countries. Wages in Madagascar remain extremely modest, albeit higher than in competitor nations like Bangladesh (see **Figure 6.5**).

	FOB (%)	Value (£)
Fabric cost	53.1	5.75
Sewing trims	7.0	0.76
Packing trims	1.8	0.20
Subcontract	0.0	0.00
Inbound freight	1.2	0.13
Total RM cost	63.1	6.84
Finance charges	0.6	0.07
Value additions	4.2	0.46
Cut, make & pack	27.9	3.02
Inspection cost	0.1	0.01
Commission	2.9	0.31
Logistics cost	1.2	0.12
FOB price	100.0	10.84

Table 6.7: Example of cost structure of Socota garment delivered FOB Source: Socota

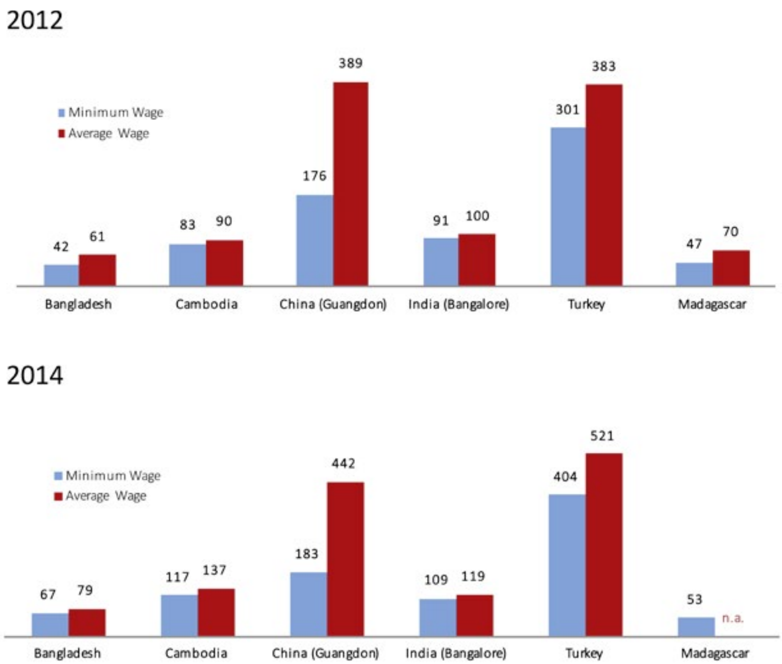


Figure 6.5: Minimum and average wages for sewing operators ($ per month, 2012 & 2014)

Source: adapted from H&M (2014). Data based on H&M audit results in each country and refer to basic wages applicable for sewing operators, excluding overtime. Madagascar data (non H&M) refers to minimum wage for sewing operators, excluding social charges and overtime. Madagascar 2012 average wage refers to local industry association estimates, including overtime (2014 data not available).

Second, Madagascar's integration in global and regional apparel value chains is inextricably linked with trade agreements. On account of its status as an African LDC, the island benefits from duty-free access to EU and US markets, which together represent well over 50% of world demand for clothing imports. More recently, duty-free access to the large South African market has been extended under the Southern African Development Community Free Trade Agreement (SADC FTA) (see **Figure 6.4**).

Preferential agreements and rules of origin in textiles and clothing

In the post-MFA world, average tariffs on clothing imports in developed countries, at around 11%, remain high in comparison to other manufactured goods. In emerged and emerging markets like China and India they stand at over 20%. Preferential regimes, which partly shield low-income SSA countries like Madagascar from open competition with Asian suppliers, have thus played a pivotal role in influencing the production and trade patterns of textiles and clothing on the continent.[10]

The terms of Europe's commercial engagement with its African partners was originally framed under the Lomé Convention followed by the Cotonou Agreement and the Economic Partnership Agreements. At the turn of the century, the EU introduced the Everything But Arms (EBA) initiative, which provided duty-free-quota-free access to all LDCs. In 2000, the US enacted the African Growth and Opportunity Act (AGOA), which extended duty-free coverage to SSA apparel exports. AGOA was complemented by a key provision, Third Country Fabric (TCF), which grants duty-free access to African LDCs under non-restrictive rules of origin. Another key institutional development was the establishment of an FTA in the Southern African Development Community (SADC) in 2008. This provides SADC members such as Madagascar with privileged access to the South African market, which accounts for over half of total SSA clothing imports.

These trade agreements are governed by rules of origin (RoO) that can be more or less restrictive. In apparel, the RoO that applies to beneficiary countries or regions are commonly differentiated by single, double or triple transformation – i.e. sewing of apparel, weaving or knitting of fabric, spinning of yarn. RoO have a huge impact on the utilization rate of preferential schemes as well as the sourcing patterns of intermediate goods – yarn and fabrics. The industry is also sensitive to numerous global market distortions such as export subsidies, notably government interventions in China and India directed at supporting their domestic textile industries.

RoO in preferential agreements are designed to prevent the transhipment of goods. The rationale behind restrictive RoO that require double or triple transformation in apparel exports is that they can stimulate industrial development in the upstream textile sector. As the effectiveness of this approach in low-income economies has increasingly been questioned, rich nations have gradually shifted toward the simplification of RoOs. This has boosted the price competitiveness of garment factories in low-income countries by allowing them to source cheap intermediate goods anywhere in the world, but it has also eroded the regional textile base and indirectly fostered increased demand for yarn and fabrics imported from China's ultra-efficient spinning and textile mills. While the EU and US have moved toward single transformation RoO for African

[10] The competitive advantage given by preferences varies across products and markets. For example, on the EU market (but not in the US) SSA suppliers are in open competition with Bangladesh and Cambodia as Asian LDCs also benefit from duty free access.

LDCs, SADC remains mostly governed by double transformation, on the principle that Southern African textile manufacturers need a degree of protection and that regional production networks in textiles and clothing will mature. By encouraging regional sourcing, policy makers hope to secure a future textile base and achieve industrial upgrading (See **Appendix 6.2** for a review of preferential agreements and tariffs covering SSA clothing exports).

The growth in Madagascar's garment exports throughout the 1990s was initially concentrated on the European market where the nation benefited from preferential access. When AGOA was implemented in 2001, Madagascar became one of a handful of eligible countries to take advantage. With fabric overwhelmingly imported from China, as permitted under the TCF special rule, exports to the US grew rapidly in basic products on long production runs assembled by local suppliers and transnational manufacturers.

However, the clothing export industry suffered three shocks in quick succession that checked its expansion and challenged its sustainability.

In 2002, social unrest and a severe political crisis discouraged investors and buyers. Many factories closed and nearly all the buying offices of global lead firms that had established a presence on the island over previous years were shut indefinitely. In 2005 the MFA phase-out negatively affected the competitiveness of Madagascar's clothing exports, although exporting firms were provided a brief respite since the national currency experienced a steep devaluation. This reduced the local cost of production on world markets and temporarily cushioned the impact of Asian competition following the removal of quota restrictions. Finally, the political crisis of 2009 and the subsequent revocation of AGOA on political grounds led to a collapse in exports to the US and further shook investor and buyer confidence. An estimated 30-40,000 jobs were lost virtually overnight at tremendous individual and social cost.[11]

Over two decades after the establishment of Madagascar's apparel export industry, the evidence in terms of social upgrading at the sectoral level is mixed. Cost pressures following the MFA phase-out and global financial crisis have checked growth in real wages.[12] Successive crises have subjected vulnerable households to mass redundancies at short notice with no safety net – women being particularly exposed.[13] The sector

[11] The episode provided a stark reminder of the influence of trade agreements and indeed the risks of depending on preferences.

[12] Household surveys – which should be read with some caution due to the often unreliable nature of data collection in Madagascar – estimate that 38% of the population working in the clothing industry in 2010 lived below the poverty line, up from 33% in 2001.

[13] Women account for an estimated 70% of workers in the garment industry in Madagascar.

has also experienced a rising incidence of informality characterized by insecure working conditions. Some skill development has occurred at the level of the firm. However, the nation lacks a sector-specific workforce development framework that responds to industry needs in terms of broadening the skill base.

Yet, a select number of manufacturers such as Socota have demonstrated a remarkable degree of resilience despite crippling governance shortfalls, strong competition from Asian producers and the uncertainty in which the domestic industry operates.

DIMENSIONS OF RESILIENCE

Salim Ismaïl has devoted his entire career to Socota, having entered its textiles operations in 1965 before becoming president and CEO in 1989 when Cotona was re-privatized. Building on his father's legacy, he has engineered the internationalization of Socota's fabric division and carried out the vision of establishing a footprint in garment production before progressively transforming the company into a vertically integrated textiles and clothing unit. Meanwhile, he has witnessed with dismay the manner in which Madagascar's socioeconomic development has stalled and the continual deterioration of the institutional and infrastructural environment.[14]

Socota has developed solid relations with a diverse set of global and regional buyers in the mid-range fashion market, including Zara, Camaïeu, Decathlon, Petit Bateau and Woolworths SA. The firm's industrial site with its 5,000 employees in the fairly remote highland city of Antsirabé has grown into the center of a sourcing and distribution network that spans the globe (see **Figure 6.6**).

In an environment of uncertainty and intense competition, Socota has built its resilience through a combination of factors that range from determined leadership to effective corporate strategies.

A common thread behind the firm's robustness is probably the owners' and executives' mindfulness of their responsibilities as agents in Madagascar's economic and social development.

[14] In reference to previous comments on ownership structures in Madagascar, Socota can be considered a domestic manufacturer deeply embedded in the country's economic fabric although the company displays multiple characteristics. Socota is Madagascan in that it has been established on the island for eight decades and the Ismaïl family resident for three generations (Madagascar does not grant citizenship to non-ethnic Malagasy). Moreover, following re-privatization, the State has kept a minority stake in Cotona. Socota is also Mauritian in that its headquarters are there and it ran a textile mill (STM) in Mauritius for two decades from which a number of managers originate. The company also has European-resident attributes as Salim Ismaïl has French nationality and the company has strong networks in France – not least Socota's design and marketing office in Paris. Finally, Cottonline was originally created in equity partnership with Asian transnational manufacturers from Sri Lanka and a US investor.

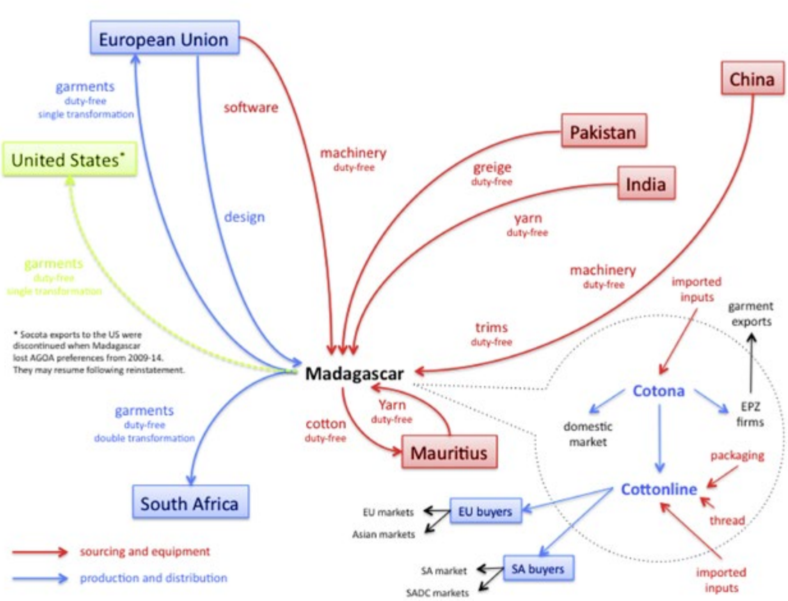


Figure 6.6: Socota textiles and clothing value chain snapshot (2014) Source: Author

Salim Ismaïl stresses:

> *We inherited a legacy of values within the firm which, in a domestic context often marked by a degree of confusion, have allowed us to succeed in uniting personnel and management around certain core principles – not least a sense of the public good and the importance of customer satisfaction. We have tried to develop a business model that is both consistent with the expectations of our social surroundings in terms of progress and responsive to the rapid evolution of world markets.*

The following analysis of the determining factors behind Socota's resilience can be measured against a broad set of sourcing criteria in the textiles and clothing industry (see **Table 6.8**).

Responsible leadership

Socota's commitment to socially and environmentally responsible practices is a key element behind the company's resilience. The group's attention to the work environment, fair treatment of workers and management of natural resources largely predates the emergence of consumer and advocacy pressure groups calling for greater transparency in textiles and clothing sourcing networks. Socota's investment in responsible manufacturing processes and local development has cultivated employee

Firm-specific criteria (endogenous factors – Socota)	
Classic criteria (minimum conditions) • Production costs (vertical integration)* • Quality • Reliability * Production costs (garments) = labor, fabrics, accessories, utilities, duty, freight, management overheads, profit margins * Production costs (fabrics) = raw material, labor, energy, capital depreciation & interest, waste, water, inputs, overheads	Newer criteria (full-package services) Manufacturing functions: • Lead times • Production flexibility • Labor relations and compliance • Environmental measures and compliance Non-manufacturing functions/services: • Input sourcing on suppliers' accounts • Product development and design • Inventory management and stockholding • Logistics and financing (access) • Communications and merchandising
Country-specific criteria (exogenous factors – Madagascar)	
• Trade agreements and preferential market access (AGOA, EBA, SADC – incl. RoO) • Transit time and cost • Physical and bureaucratic infrastructure, esp. transport, energy, logistics and customs • Access to raw materials (yarn and fabrics) – international (duty free imports) • Access to raw materials (yarn and fabrics) – local/regional (shorter lead times and flexibility)* • Scale in garment production capacity • Labor and management capabilities (local skills and expertise) • Exchange rate regime (impact of fluctuations on sourcing costs) • Government incentives (EPZ regulations) • Historical, cultural and political ties (embedded networks – e.g. France and Mauritius) • Political risk and vulnerability to shocks * Local fabric production has to be competitive in terms of price, quality and lead times relative to duty free imports.	

Table 6.8: Lead firm sourcing criteria in the apparel global value chain

Source: Adapted from Staritz (2011)

engagement and has become a factor of differentiation in positioning the company as a supplier of choice in global value chains.

The main pillars of Socota's approach to corporate responsibility are:

- **Health**: Socota voluntarily took the initiative in 1968 to co-found an inter-enterprise medical center for its employees called SMIA. While the obligation to grant health benefits was subsequently contained in labor laws, SMIA provides Socota employees and their immediate families with virtually free access to quality healthcare. In an impoverished community at risk – notably pregnant women and children – the clinic fills an important institutional void given the deficient state of public health services in Madagascar.[15]

[15] Antsirabé has a population of approximately 180,000. The health services provided by SMIA to Socota's 5,000+ employees and immediate families covers a meaningful percentage of the city's population. A benevolent initiative of note regarding community health is a sponsorship agreement Socota entered with Mercy Ships in 2015. Through this partnership, Socota funded the logistical organization, screening and transport of community members in need of surgical operations unavailable on the island.

- **Wages & benefits**: The wages paid to low-skilled workers are slightly above minimum wage requirements. Based on a fixed wage of \$55, the disposable monthly income of a sewing operator can reach between \$100 and \$130 when overtime, productivity bonuses and night allowances are included (wages refer to 2013). Socota provides free meals essential to the demands of manual labor and subsidizes the bulk purchase of rice, winter blankets and school kits to help employees manage big annual household expenses.
- **Work environment**: The factories compare favorably with the highest international standards in safety and hygiene. The company operates Antsirabé's only fire brigade, made available to the community, and it has constructed an outdoor multi-sport complex for recreational activities.
- **Workforce development**: In-house training is a key strand of Socota's human resource policy. While workforce development structures fall in line with the objective of enhancing productivity and securing a future skill base, they also play an important role in terms of capabilities. Local employees can aspire to better livelihoods and the prospect of a more sustainable future through the acquisition of skills that lead to higher-paid and enriching jobs. The potential for advancement and upward mobility is central.
- **Working conditions**: An important feature of the clothing industry is labor flexibility and the ability to manage opening hours and work intensity according to orders. Legal working time in Madagascar is set at 40 hours per week, to which can be added 20 hours of overtime. Rotations in Cottonline's factory are conducted in 8- to 10-hour shifts, day and night, Monday to Saturday.[16] Although Socota's penetration in the South African market has eased the burden of seasonality, factory layout, working hours and wage stability can vary greatly. Socota workers, organized for collective bargaining purposes under work councils, accept the demands of flexibility owing to the overall quality of employee care and the possibility of earning a higher monthly income. Worker turnover in Socota's garment factory stands at 0.5%-0.7% per month, a very low rate by national and international standards.[17]
- Environmental measures: Beyond protecting workers from exposure to hazardous substances, Socota's foremost environmental measures target Cotona's fabric mill, since the different stages of textile

[16] During peak seasons, Cottonline operates round the clock from Monday to Saturday with a double rotation of workers on six 10-hour shifts per week. Slack seasons see these rotations reduced to five 8-hour shifts from Monday to Friday. Overtime and night shifts are paid at a higher rate, as required by law, and workers are entitled to productivity related bonuses.

[17] The fact that there are limited alternative formal employment possibilities in the region also influences this high retention rate.

production are energy, water and chemical intensive. The company has invested in a wastewater treatment facility with a capacity of 100m^3 per hour, which is compliant with European norms. With regards energy, Socota has undertaken a first energy transition by replacing solid-fuel boilers with biomass-powered systems for the generation of steam.[18] The company is exploring the possibility of a second transition in which it may decide to discontinue its reliance on the defective national grid by producing its electricity needs through co-generation from biomass. The factors that influence Socota's energy strategy are access to reliable power generation on a cost-optimal basis, a reduction in the mill's carbon footprint and community engagement.

- **Education and Community Development**: Socota has put in place a free in-house educational platform in which all non-management employees are encouraged to enroll their children of primary school age. This vital service in the context of Madagascar's extremely poor public educational infrastructure and delivery includes modules in computer literacy, French and English.

Quantifying the impact of ethical practices on Socota's earnings is a somewhat subjective exercise. However, the business case for quality jobs and sustainable processes can be found in tangible and intangible rewards that have contributed to the firm's strength.

First, they deliver a sense of purpose, pride and motivation among managers and employees in difficult, at times dispiriting, operating circumstances. Second, in a highly competitive and fast-evolving global marketplace in which producers need to stay nimble and flexible, healthy labor relations create a line of communication between managers and workers that facilitate adaptation and organizational change. Third, employee engagement and human resource development are necessary conditions in a poor country like Madagascar to align the efforts of the company toward the objective of customer satisfaction.

Finally, Socota's investment in establishing a brand associated with compliance to high social norms has become a factor of differentiation in global value chains. In response to growing public scrutiny and shifting consumer attitudes, labor and environmental norms are, to some extent, reshaping the parameters of international competition. They are increasingly being adopted and monitored in formal contracts with global buyers as preconditions for sourcing arrangements. Socota's garments are not the cheapest on the market. Yet its ability to deliver quality products and reliable services with transparent socio-environmental processes

[18] Cotona consumes 13 MWh of energy, 10 MWh of which is for high-pressure steam and 3 MWh for electricity. The company grows 200,000 seedlings per year in a nursery for reforestation as part of its purchasing agreement with local wood suppliers. The factory, however, still relies on diesel as a back-up fuel.

means that the company has developed relations of trust with a set of strategic clients.

Labor and environmental standards in textiles and clothing value chains

In April 2013, Bangladesh experienced its worst industrial accident in history when the Rana Plaza Building, which hosted several clothing companies, collapsed and killed over a thousand workers. The disaster, preceded by other tragedies in which garment workers had perished, brought to world attention the issue of accountability within global textiles and clothing value chains. At heart, the debate revolves around the issue of incentives between retailers, sourcing agents, low-income country suppliers and state agencies in enforcing labor standards and promoting decent working conditions.

Elsewhere, garment workers in major producer nations like Vietnam and Cambodia have taken part in prolonged industrial action to secure better remuneration. The issue of toxic waste in textile production has also come to the fore in countries like India and China. Consumers and advocacy groups are increasingly demanding that lead firms become more responsible and transparent in their social and environmental sourcing policies. This, in turn, implies greater visibility throughout the supply chain as global buyers, with brands to protect, seek to ensure that suppliers adhere to minimum standards.

Madagascar's formal export-oriented garment sector has generally been spared the most egregious forms of abuse in the industry where advantage is taken of vulnerable populations in states with weak institutional capacities in or der to seek competitive advantage through highly questionable practices. However, Madagascar is a very low-wage country with a high share of working poor and the State does not have the capacity, or the will, to enforce strong legal compliance. Social and environmental policies vary considerably between firms.

A commitment to social and environmental sustainability has vast implications for textiles and clothing producers in developing countries like Madagascar. Sustainable products imply a thorough rethink of manufacturing processes in terms of raw material and chemical inputs, energy and water resource management, working conditions and the remuneration of low-skilled operators. Naturally, this challenges the distribution of profits and rewards across the value chain.

The responsibility and cost of implementing sustainable production processes – whether voluntary, legally enforced or through the dissemination of private standards through the supply chain – rests for the most part on producers. While retailers, branders and intermediaries are extending the complexity and speed of operations demanded of their suppliers, all for lower costs, sound labor and environmental practices are rarely governed by positive incentives such as support programs, price premiums or longer contractual agreements – all of which could facilitate investment in plant and equipment upgrade and promote better paid and more secure jobs.

Effective strategies

Socota's local embeddedness and understanding of Madagascar's operating environment have enabled the firm to persistently provide a response to domestic turbulences while adjusting to structural shifts in the textiles and clothing industry. Historical circumstances, especially the nationalization of Cotona and the prospect of witnessing the textile mill collapse following re-privatization, have strongly influenced the group's corporate vision and its ability to cope with uncertainty. Socota's resolve to internationalize its textile operations, redeploy toward export markets and diversify into downstream garment production stems from these experiences.

To recapitulate, the forces to which Socota executives have had to respond since the 1980s are:

- A surge in fraudulent imports and plunge in market share during the early years of "disorderly" liberalization;
- Recurrent political crises that have shaken the confidence of buyers and investors in Madagascar while forcing manufacturers to restructure from a lower base;
- The end of the MFA regulatory regime leading to intensified Asian competition and a profound reorganization of global sourcing networks;
- Depressed demand and cost pressures in textiles and clothing supply chains resulting from the global financial crisis;
- Changes in rules of origin governing preferential trade agreements with the EU that negatively impacted on the competitiveness of Socota's textile production;
- The sudden revocation of AGOA and ensuing collapse of exports to the US market.

In addition to this political, economic and regulatory roller coaster, Socota has contended with weakening institutions, creaking public infrastructure and a difficult business environment.

Internationalization

The foundation of Socota's reinvention as a successful outward-looking enterprise competing in global value chains can be found in the decision to internationalize its textile operations by investing in a new industrial challenge in Mauritius.

The strategy was one of import substitution in textile manufacturing. Incentivized by an EPZ regime that had been set up in the 1970s, quota-hopping producers from East Asia and local suppliers had created a budding apparel sector in Mauritius, which benefitted from preferential market access to the European Community. The country was stable and well governed, wages were as yet relatively low and prospects for sectoral expansion were solid. Socota ventured to accompany the growth of this garment activity by transferring its industrial know-how in woven textile production to the small neighboring island.

Following a substantial $25 million investment, STM started to produce cotton fabrics in 1989 for clothing factories operating in the Mauritian EPZ. This strategic decision radically altered Socota's mindset and world view. In moving from a domestic-focused enterprise, operating in the narrow and insulated Madagascan market, to an export-oriented producer, integrated with supply chains feeding demanding European clients, Socota applied itself to managing the stimuli and challenges arising from international competition, such as equipment modernization, process upgrade, product quality and knowledge absorption.[19]

Having gained an industrial presence in Mauritius, Socota's headquarters were relocated and have remained on the island as the rational path of insuring against extreme outcomes related to volatility and political risk in Madagascar.

Marketing and design

A pivotal decision Socota took during the early years of export redeployment was the creation in Paris of a marketing and design studio, Socota Design, at the heart of European markets. This initiative became one of the main building blocks to the company's resilience.

The creation of Socota Design in 1992 grew from the analysis that Socota, as manufacturer of an intermediate good, should rely on its own marketing efforts to bring global buyers to the Indian Ocean. Most of the firms to which STM and Cotona sold textiles were small clothing suppliers, specialized in assembly, whereas the influential players in the value chain were to be found in Europe. The marketing office in Paris enabled the company to enter into direct relations with lead firms and draw the market to the distant African islands.

[19] Long-term finance for the project was secured with the support of multilateral development agencies, which stipulated that 40% of the capital should be provided by shareholder equity.

Another key function Socota Design played during the early phase of export growth was deepening the company's understanding of consumer preferences and its knowledge of global standards. In later years, as Socota has restructured into a vertically integrated manufacturer in direct interaction with global buyers, reliance on the studio's marketing role has waned. But the accumulated capabilities in design and product development have been instrumental in Socota's ability to offer value-adding services and gain access to fashion-sensitive market segments.

Diversification

Despite its long history and size, Socota has acquired an entrepreneurial spirit, as it has regularly had to adapt to an unpredictable and moving environment. At the turn of the century, it seized the opportunity to diversify into downstream garment production.

The initiation of AGOA created regional dynamics in which Socota set out to participate. A joint venture was created in 2000 with a specialized investment company from the US and two multinational clothing manufacturers from Sri Lanka. This gave rise to the establishment in Antsirabé of Cottonline, which opened in 2003, through which Socota acquired its know-how in garment manufacturing. The strategic focus of the joint venture was to take advantage of EPZ incentives and AGOA preferences. Cottonline produced one item (standard cotton trousers on long production runs) for two clients: Gloria Vanderbilt in the US, which absorbed 80% of output, and Decathlon in Europe, which ordered the remaining 20%. Fabric for assembly for the US market was sourced from China. Cotona and STM meanwhile continued to supply firms exporting to the EU under double transformation RoO.

Discouraged by China's rapid penetration in the US market when the MFA ended, the Sri Lankan partners withdrew in 2006. Cottonline was restructured under equal ownership with Socota as managing partner. Socota's footprint in garments set in motion an integration strategy adapted to the shifts that have reshaped global value chains in textiles and clothing in the post-MFA world.

Vertical integration

As indicated, the MFA phase-out created powerful forces in global production and distribution relative to which Socota had to chart a vision and define a course to secure its future.

Socota's modest textile mills found it tough to compete against Chinese imports of fabric. Moreover, the Zone Franche in Madagascar had not prospered as hoped due to infrastructure constraints and political instability. Garment manufacturers in the EPZ could not be relied upon to invest and expand to ensure consistent and sufficient levels of demand for Cotona's capital-intensive output.

With regard to garments, low-cost Asian suppliers challenged Cottonline in standard products assembled from imported textiles. In addition, global buyers were moving toward retail models and sourcing policies in which lead times and flexibility were increasingly important determinants of competitiveness, especially in mid-range fashion segments (see **Table 6.9**).

Since 2006 Socota has embarked on a strategy of vertical integration in which Cotona fabrics have incrementally substituted imported textiles to feed Cottonline. Growth in Socota's garment division has secured scale for its textile division. Forward integration has further enabled Socota to take its destiny into its own hands in terms of international markets by directly supplying lead firms with full-package services from textile design to garment production.

The retail industry has evolved in such a way that the ability to respond to ever shorter lead times is essential. Global buyers have shifted to lean retailing, tighter inventory control and just-in-time delivery while consumers demand a broad variety of products on short fashion cycles. As a result, the sourcing policies of buyers are driven by speed-to-market and flexibility criteria. This includes the suppliers' ability to rapidly get new products from concept to shelf in fast-fashion segments as well as to provide quick response for replenishment orders. Furthermore, decreasing product life cycles imply that buyers prefer ordering on shorter production runs – especially in the European market compared to the more uniform US market in which orders are of higher volume. This means that suppliers are increasingly challenged to work on short schedules and show flexibility in terms of production runs, product variety and responsiveness – i.e. the ability to take on last-minute and fast track orders.[20]

Suppliers in Madagascar are confronted with two major hurdles in this industry configuration. The first is geographic isolation and the second is limited backward linkages with competitive local fabrics. When Socota started to implement its integration strategy, producers sourcing their fabrics from Asia were working on minimum 13- to 14-week lead times from order to delivery in major destination markets. By shaving 3 to 4 weeks from the shipment of imported fabrics and coordinating the supply chains, production and marketing of its fabric and garment divisions, Socota was able to gain flexibility and fulfill orders with shorter lead times for global and regional markets. The competitive gains Socota achieved at the firm-level have since partly been eroded by country-level developments. Madagascar's economic collapse and relative isolation during the transition years from 2009 to 2014 have lengthened average shipment days to the EU and South Africa by one to two weeks.

[20] Time and flexibility requirements increase the further a supplier moves up in value from basic products for mass retailers to more complex products in fashion-sensitive segments. Both requirements have proved challenging for SSA suppliers.

In tandem with the policy of diluting the import content of Cottonline's textile inputs, Socota implemented a re-orientation in the garment division's strategy by diversifying its product range and end-markets while broadening its customer base. This proved to be a key factor of resilience when the factory was hit by the impact of AGOA revocation following the 2009 political crisis.[21]

By diversifying its know-how in garment production – from trousers to more complex items such as skirts and shirts – Cottonline increased its flexibility and entered new markets with mid-fashion retailers such as Zara, Camaïeu and Woolworths SA. When Madagascar gained duty-free access to South Africa, Socota took advantage of the window of opportunity by targeting distribution networks before new entrants crowded the market. SADC's double transformation RoO meant that Socota's vertically integrated set-up could develop proximity markets in short-run and speed-to-market production with high margins while benefitting from its locational and preferential advantage over Asian suppliers. Woolworths SA, one of the rainbow nation's biggest retailers with outlets in neighboring countries, became Cottonline's main client.[22]

Strategic adjustments

A final characteristic in explaining Socota's resilience can be found in the group's willingness to adjust. This can be seen in the aforementioned strategic decision to merge STM with Cotona when competition in post-MFA supply chains intensified and lead firms further consolidated their supplier networks in the wake of the global financial crisis.

The decision was the result of two interdependent analyses. In Mauritius, clothing production was on the verge of becoming a sunset industry due to the island's rapid development and rising labor costs. Socota correctly anticipated that garment manufacturing would migrate and there would be overcapacity in woven fabrics. In Madagascar, Socota recognized that a weakness in its vertical integration strategy was the price competitiveness of its fabrics. The merger between the textile mills upstream of the production chain enabled Socota to rationalize operations, generate economies of scale and increase capacity for Cottonline exports.

In restructuring its fabric division, Socota also reached the conclusion that after half a century in operation it would close its spinning factory and import yarn. Spinning is a very capital-intensive segment of textile production. Upgrading the plant to produce competitive yarn called for huge investments in advanced equipment powered by reliable electricity.

[21] The US market constituted over a third of Cottonline's turnover when AGOA was revoked. As a result of the efforts it undertook in product and end-market diversification, the firm was able to adjust to the loss of its client and redirect output to SA and EU buyers.

[22] South African retailing offers the added advantage of reverse seasonality with the EU and US, thus reducing the burden of long slack periods in cotton-woven garment production mostly destined for spring and summer collections.

Energy infrastructure in Madagascar could not guarantee that the factory would turn at the required levels of efficiency. Spinning has also become an increasingly specialized activity in which Asian manufacturers have reached levels of productivity in different yarn types against which Socota can no longer compete.

Knitted vs. woven fabric and apparel

To understand the industrial prospects and challenges of Socota's vertically integrated operations in Madagascar, it is important to distinguish between two different segments in the textiles and clothing industry: knitted and woven apparel. "The supply chains of these two types of apparel are quite distinct – they use different types of yarn, fabric, machinery and manufacturing technology, and they differ with regard to vertical integration due to different capital intensities in the fabric production stage."

Knitted apparel (e.g. sweaters and T-shirts) "can be made from a variety of knitted fabric types, or the final product can be knitted from yarn into an apparel product without a distinct fabric production stage. Countries often move into knitted fabric production prior to woven fabric production because a knitting machine is generally less expensive and uses less energy than a weaving machine. Furthermore, products that use flat knit fabrics can be made with hand knitting or semiautomatic knitting machines that are labor intensive. They are often found in developing countries with large, low-wage labor pools despite more advanced electronic versions."

Woven apparel (e.g. cotton trousers and shirts) "is made from woven fabric that is cut into pieces and sewed together by apparel manufacturers. In most cases, the apparel assembly stage is not in the same factory as the fabric-weaving mill. Backward integration into weaving, dyeing, and finishing is generally capital intensive and uses more energy than apparel assembly processes."

Clothing from woven fabrics requires on average 30 minutes of labor manufacturing (up to 50 on certain items) whereas clothing from knitted fabrics can require as little as five minutes. This means that woven apparel is often the first to migrate to low-wage countries when labor costs increase. Meanwhile, woven textile production, due to its capital, scale, energy, technological and skill requirements, has proved difficult to establish in low-income country suppliers. Investment in a woven textile mill can range from $30–100 million, including a few hundred workers with technical skills and product knowledge. In comparison, investment in a clothing factory with 2,000 low-skilled operators will cost $3–6 million.

Source: quotes from Staritz, Sewing Success (2011), p 46

SUSTAINABLE FASHION SOLUTIONS OUT OF MADAGASCAR

Socota has reached a new phase in its eventful journey – from trading house founded under French colonial rule through textile manufacturer in an era of post-independence enthusiasm to garment producer in a least developed country stumbling from one political crisis to the next. Management has been passed on to a younger generation of executives, who have been groomed in the firm over the years and are responsible for securing a sustainable future.

Industry environment

The peaceful democratic transition in Madagascar after five years of transitional rule offered hope that a robust post-crisis recovery may be set in motion through improved public service delivery and an environment that will facilitate sustained investment in the economy. A year later, these expectations remain for the most part unmet. The political elite has given little indication that it will formulate a cohesive development project or a legal framework conducive to the nation's long-term recovery. The will to confront deep-rooted corruption and address the institutional weaknesses behind the island's entrenched poverty and instability seem to have faded. While a sustained period of growth from a diminished base cannot be discounted, the most reasonable assumption is that Socota will have to continue to drive its industrial development in the absence of strategic thinking on the part of government and in a domestic context that will remain both fragile and uncertain.

A decade after the MFA phase-out, international sourcing networks are still evolving at a rapid pace and adjusting to new retail models and the fallout of the financial crisis. But the parameters of competition between suppliers in textiles and clothing value chains are broadly understood.

On the supply side, industry analysts warn against seeing participation in apparel value chains as an easy avenue for industrial diversification and economic upgrading in small low-income countries. The reality is that late-starters are constrained by the consolidation of supply chains toward heavily populated and low-wage Asian developing nations like Bangladesh and India. While cost pressures in China will create space for alternative sourcing destinations such as sub-Saharan Africa in labor-intensive garment manufacturing, the dynamics regarding labor costs on the mainland and how they will affect the competitiveness of low-income suppliers outside of Asia are as yet difficult to anticipate.[23] In textiles, China accounts for a staggering 65% to 80% of the world's spinning and weaving capacity.

[23] In 2011, China still had a rural population of approximately 600 million living on low household incomes. Industry surveys, however, indicate that a decrease in China's share in global garment sourcing is expected over the near-term with the main beneficiaries of this industry migration to be found in South and Southeast Asia.

Between 2000 and 2010, 75% of all new purchases in modern spinning and weaving equipment were delivered to the mainland. This means that the East Asian power holds a competitive advantage in yarn and woven textile manufacturing that will probably last for the foreseeable future.

On the demand side, two forces are shaping the industry. The first is a shift in gravity in apparel retail from mature to emerging markets, most notably Asia, driven by rising disposable incomes and urbanization. Developing and emerging nations are expected to constitute half of global industry sales in the mid-fashion segment within the coming decade.[24] In sub-Saharan Africa, for example, growing retail markets are creating new opportunities for regional production and distribution networks. The second force is the rationalization of supply chains whereby branders and retailers require increased capabilities of their suppliers. This geography of sourcing is characterized by a pronounced trend on the part of buyers to consolidate their supply base in countries that can provide both capacity and scale with cost advantages in labor and market access. For mid-fashion product categories in which lead times are a determining criterion, proximity sourcing is becoming increasingly important. Sourcing policies, however, are also guided by the need to spread risks through varying degrees of diversification.[25]

Regarding trade rules, the most likely scenario is that African LDCs, including Madagascar, will continue to be eligible for preferences in major markets in the expectation that the "breathing space" they provide will enable a gradual strengthening of their competitiveness. While there is some uncertainty over the potential for future preference erosion as well as the terms of AGOA renewal post-2015, Madagascar will benefit from very favorable market access conditions for garments in the US and the EU. In addition, the island will be able to exploit the SADC FTA while duty free exports are also granted in emerging markets like China and India.[26]

[24] In 2012, demand for clothing imports was still highly concentrated in three regions: North America, Europe and developed Asia accounted for approximately 75% of world imports.

[25] For example, in light of Bangladesh's poor record in safety standards, European brands have requested that their purchasing officers consolidate networks in the country toward dependable suppliers and that they seek alternative locations. As another example, in which the diversification strategy is driven by lead times, retailers will source a product on long runs in Bangladesh or China but call upon alternative suppliers to produce end of season replenishment orders that can be delivered on short schedules.

[26] The uncertainty over AGOA 2.0 revolves around the duration of the agreement, whether elements of reciprocity will be introduced and whether the TCF special rule will be extended. Another area of uncertainty is whether Madagascar (and other SSA LDCs) will be affected by preference erosion. This could happen via a number of channels: the unlikely conclusion of multilateral negotiations at the WTO in non-agricultural market access whereby MFN tariff lines on textiles and clothing are reduced; unilateral tariff reductions in developed or major emerging markets; broader geographic or product coverage of existing duty free schemes in leading markets; free trade agreements that may include both major buyer and garment supplier nations (e.g. Trans-Pacific Partnership).

The above dynamics imply that global buyers and investors are monitoring sub-Saharan Africa as an alternative destination for future production and supply. Yet before large-scale resources are committed to the region, African supplier nations will probably need to be able to offer more than preferential access to major markets and low wages, especially as competitiveness based on labor costs alone can encourage a race to the bottom.

Organizational change

From 2006 Socota started to reposition as a vertically-integrated unit and in 2009 the company rebranded as a one-stop-shop that offered "fashion solutions out of Africa," thereby marketing its geographic affiliation and full-package services.

Beyond quality and cost, the value proposition of Socota's vertical set-up in the global textiles and clothing value chain rests on four pillars: differentiation in textile design, flexibility in garment production, reduced lead times and strong socio-environmental standards. Added to its logistical services in inbound sourcing and outbound distribution, the group's clients can order mid-range fashion products from concept to delivery under a single window (see **Figure 6.1**).

In response to market opportunities, Salim Ismaïl has challenged Socota executives with the goal of doubling garment output from 6 to 12 million items while increasing the production of cotton-woven fabrics within Cotona's finishing capacity of 16 million meters per year. This target implies that Socota's workforce in Antsirabé might eventually double from 5,000 to 10,000 employees – with the overwhelming majority of job creation in garments.[27]

Having decided to push vertical integration as the business model adapted to the firm's growth in world markets, the company faces difficult managerial challenges in merging the divisions. In essence, the strategy amounts to the takeover of Cotona by Cottonline. In consolidating production units around commercial, marketing and human resource policies that will become fully aligned, the team responsible for guiding this industrial reorganization will have to make a strong internal effort in communicating the issues at stake.

Cotona and Cottonline are two distinct structures with as yet different cultures and identities. The first is a capital-intensive historical entity, largely operated by middle-aged men in a francophone and Malagasy setting, which produces an intermediate good in a position of quasi-monopoly on the domestic market. The second is a labor-intensive young

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[27] Between 2002 and 2015, the global apparel market grew at an average annual rate of 5%. According to analysts, the global apparel business, driven by emerging retail markets, can be expected to generate double-digit growth between 2015 and 2020.

gun, with a majority of female workers in their mid-twenties and a more Anglophone work environment, which produces a ready-made product in direct interaction with global buyers. Affiliating the divisions under a single dynamic, in which Cotona will effectively become an extension of Cottonline's commercial strategy on world markets, implies creating a durable sense of solidarity.

Cotona and Cottonline: Different structures and identities

Socota Fabrics	COTONA established in 1957
Clients:	Cottonline (50%), EPZ firms (25%), Domestic market (25%)
Markets:	Madagascar
Employees:	785 – majority of men – average age in 50s
Management team:	Mostly expatriate (e.g. Mauritian, French)
Product:	Intermediate (yarn dyed, piece dyed and print fabric)
Main challenges:	Power supply, equipment upgrade, flexibility and middle management

Overview: Capital-intensive dyeing, weaving and finishing factories with a finishing capacity of 16 million meters per year and a weaving capacity of 8 million; Difference between weaving and finishing capacity substituted by imported greige (un-dyed, unprocessed fabric); Cottonline absorbs 7 to 8 million meters of annual production; Cotona estimated to supply 15% to 25% of fabrics assembled by EPZ firms in Madagascar; In-house design team; Low profitability with the mill turning at 70% capacity.

Socota Garments	COTTONLINE established in 2001
Clients:	Global and regional brands/retailers (e.g. Decathlon, Camaïeu, Zara, Woolworths)
Markets:	Europe (50%) and South Africa (50%)
Employees:	4,300 – majority of women – average age in mid-20s
Management team:	Mostly expatriate (e.g. French, Mauritian, South Asian)
Product:	Final (ready-made garments)
Main challenges:	Shipment time to end-markets and middle management

Overview: Labor-intensive garment factory with capacity of 6 million items per year working on mid to short runs and different delivery cycles; High product variety in the mid-market cotton range; Lead times fluctuate from 5 to 6 weeks to 3 to 4 months depending on seasons and orders, with very short cycles transported by air rather than ship; Average production runs for the South African market are 4,000 to 5,000 items while EU orders may reach 30,000 to 35,000 items; Main client Woolworths SA; Profitable and expanding enterprise.

The manner in which buyers generally work with Cottonline is by producing technical specification sheets. The "tech sheet" includes the volume of the order, size breakdown, delivery date, fabric specifications, trims, seam measurements, printing, embroidery, washing, packaging, etc. Socota's design strength resides in the fabric specification aspect of production – i.e. Socota can work in pre-production with its customers in the development of fabrics for a specific product line.

Incentives behind the merger

Although Cotona will continue to produce a share of its output for EPZ firms and Cottonline will source fabrics from abroad on an ad hoc basis, the strategy is one in which marketing and production will be harmonized. In order to capitalize on the advantages a vertically integrated unit can bring in global value chains, a high degree of coordination is necessary. The executives in charge of this transition will convey key messages from the base to managerial level as it seeks to strengthen cohesion across the industrial site in Antsirabé.

- **Mutually reinforcing growth**: Socota's success is anchored in the journey of both entities. Socota has the unique advantage of being in a position to transform its own textiles with advanced know-how in process and design while Cottonline's expansion will secure demand for Cotona's output. Socota's capital-intensive textile mill, in contrast to its clothing factory, requires scale and continuous production in order to be profitable and competitive.
- **Product differentiation**: Socota will find it difficult to challenge Asian suppliers in standard products and is positioning itself as a partner of differentiation thanks to its combined capabilities in textiles and clothing. Michaël Appadoo, director of operations, explains:

> *When a client comes to see us in Antsirabé, he has the option of bringing his own garment design, which is usually the case, and our power of offer is based on the ability to submit textile designs that we can then develop in collaboration. It is often the quality of the fabric that differentiates a line of clothing.*

- **Competitiveness**: Cottonline estimates that its factory ranks among the most efficient in the world.[28] The main logistical constraint it has to deal with is shipment times, which have lengthened owing to Madagascar's stagnation, thereby diluting firm-level productivity gains. Cotona's fabrics are produced at an average 10% premium relative to tariff-exempted Chinese imports. As labor and fabric constitute the vast share of garment production costs, the relative cost of Cotona's textiles is key to the price competitiveness of Socota's garments in world markets.[29] In light of Madagascar's instability and deficient power infrastructure, the strategy is to identify efficiency gains while proceeding with a degree of caution before committing significant long-term capital to textile factory upgrade and capacity expansion.
- **Flexibility and lead times**: Socota's cost differential in fabric production has to be offset against the flexibility and reduced lead times that vertical integration permit. The internal assessment, in this respect, is that the upstream textile division can better accompany the garment division – for which a high degree of flexibility is a major asset in securing orders and attracting clients. In response to the evolution of global retailing, Cottonline has adapted its concepts and shifted factory organization to lean manufacturing. The next step will be to apply this industrial knowledge to Cotona to improve the efficiency of its manufacturing processes and secure greater supply chain coordination between the fabric and garment units from pre-production to delivery.

Human resource development

The biggest challenge Socota has to tackle in its restructuring and development is human capital. As Véronique Auger, the recently promoted CEO, puts it:

> *When push comes to shove, the constraint isn't so much that of financing our expansion but rather the recruitment, identification and training of our most talented individuals. We need to create a structure of human resource management spread across our vertical set-up that will fuel our growth.*

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[28] An empirical measure of this efficiency is that shirts produced by Socota for Zara, the world's largest clothing retailer and leading exponent of fast-fashion, are sold in retail stores located in China, the world's most efficient exporter of garments.

[29] The move toward simplified RoO in preferential agreements has added flexibility in input sourcing but it also means that Socota's fabrics are in competition with Asian weavers, especially Chinese and also increasingly Indian, whose cheap and often subsidized products can be imported exempt from tariffs and then assembled and exported duty free from Madagascar and competitor nations like Bangladesh.

Sustaining competitiveness while upgrading in global value chains implies a continuous process of workforce development. Madagascar does not have an educational system that can feed the needs of its textiles and clothing industry. Nor does the country possess a sectoral hub of sufficient scale to give rise to a pool of experienced workers on the domestic labor market. In addition, the quality of higher education and engineering schools is below international standards and the vast majority of recruits in low-skilled jobs have extremely low levels of formal education that rarely reach high school qualification or even full literacy.

Raising competencies and guiding Malagasy workers into management positions will be key to strengthening the backbone of Socota's industrial modernization and growth prospects.[30]

The scarcity of experienced professionals who can direct production and control maintenance across advanced textile machinery has led Cotona to rely on expatriates. In order to build a dependable skill base, Cotona has put in place a system of internal relays across production units in which Malagasy workers and engineers are trained, initially under the supervision of foreigners, to take on supervisory and management positions within a few years. These relays will become a permanent structure within the firm to rejuvenate and expand the pool of skilled technicians and local managers.

Cottonline's challenge is different in that training semi-skilled operators can be done in a matter of days. Garment manufacturing, however, demands line leaders and production supervisors with management competencies and an understanding of customer preferences. Moreover, vertically integrated full-package services call on personnel with cross-industry knowledge and skills in quality control, supply chain management and the coordination of production schedules. To nurture these skills, Cottonline has also set up a network of in-house relays in which talented young workers can be identified, mentored and pushed through the ranks.[31]

Some of the more intractable dynamics Socota has to manage in its human resource policy are of a cultural nature. On the one hand, the diversity of nationalities in the management structure is a source of strength since employees from different backgrounds can draw on their

[30] As appears to be relatively common in the export sector in Madagascar, expatriates hold many of the upper management positions at both Cotona and Cottonline (European, Mauritian and South Asian).

[31] An ideal scenario, from the perspective of Socota management, would be one in which a growing middle management team of Malagasy workers who have been promoted from the base can be established. Their accumulated skills combined with their sensitivity to the trials of household poverty and manual labor would be invaluable. Low- and semi-skilled workers speak native Malagasy and some have rudimentary knowledge of French. Socota has introduced English and French language courses for employees who accede to management positions to overcome barriers to promotion.

experiences and world views to jointly develop effective solutions and ideas. Expatriates also bring openness to the outside world in a country that is often perceived, partly due to its geographic isolation, as overly insular and protective of certain customs. On the other hand, language, adaptation and long-term commitment can be a problem.

Of broader significance is the issue of culture in the context of indigenous development. Socota's modern industrial complex in Antsirabé is an islet of globalization in a socioeconomic landscape dominated by informal and traditional activities.

As Salim Ismaïl underlines, "we seek to convey to our workforce an understanding that despite the divergences that may exist between our Madagascan reality and the outside world, success depends on our ability to compete internationally." Socota's corporate ethos is guided by strict attention to customer satisfaction. The manner in which these divergences take form can clash with this principle. As an example, traditional Malagasy society, for better or for worse, is governed by a strong sense of community obedience and solidarity (fihavanana). This can lead to societal pressures to conform, solicit preferential treatment and take on burdensome pecuniary obligations, all of which may weaken an individual's determination to stand out and assume positions of responsibility.

CONCLUSION

Socota has developed into a robust and modern industrial enterprise in a remote low-income country prone to political instability and encumbered by decades of poor governance. While Madagascar is one of the world's poorest nations and has struggled to build the institutions of a functional state, Socota has reinvented itself from a domestic focused textile mill to a vertically integrated clothing manufacturer on an upgrading trajectory in global value chains. In the process, the firm has responded to deep shifts in the organization of world production to position itself as a supplier of choice for international retailers in intensely competitive garment sourcing networks.

The cornerstone of Socota's resilience has been determined and responsible leadership. This has enabled the company to steer through uncertainty via effective corporate strategies. The group's investment in high social standards has become a factor of differentiation in apparel sourcing while its attention to the work environment has fed employee motivation in difficult operating circumstances.

Socota provides the demonstration of what can be achieved in Madagascar. However, there is probably only so far the firm will be willing to go in terms of committing funds and driving the nation's industrial development forward, along with other investors and producers, in the absence of stability and forward planning on the part of government. The challenges that lie ahead appear no less demanding than the challenges Socota has had to confront in the past.

As the group restructures into a fully integrated vertical enterprise with ambitious expansion plans, its textile division will have to continue to overcome constraints to its competitiveness and its garment division will have to remain agile to succeed in the fast-evolving supply chains of brand owners and retailers in which fashion items are of a diminishing shelf life.

In the late 19th century, the notoriously dandy playwright and novelist Oscar Wilde quipped that "fashion is merely a form of ugliness so absolutely unbearable that we have to alter it every six months!" Little could he have anticipated the velocity of modern retail and the changeable tastes of the growing mass of world consumers. In building a sustainable integrated unit in the Indian Ocean that will stand the test of future challenges and capture gains in the value chain, Socota's managers and growing workforce may be guided by the Malagasy proverb: "Mita be tsy lanin'ny mamba – When many people cross the river together, they do not fear the crocodile."

Functional Categories	Capabilities	Country Examples*	Description	Workforce development
CMT Assembly	Marginal supplier Low-cost volume production	Cambodia sub-Saharan Africa (exc. South Africa, Mauritius)	• The focus of the supplier is on production alone; suppliers assemble inputs following buyers' specifications. • Inputs (textiles and accessories) may be imported due to limited availability and quality concerns over local inputs • Product focus may be low	• Reliance on in-house training provided by supervisors to ramp up new machine operators. • Technical staff, such as mechanics and engineers, may benefit from additional external training programs.
OEM (FOB) Full Package Provider OEM sourcing or OEM textile production	Preferred supplier Scale economies in volume production	Bangladesh Indonesia Pakistan Vietnam	• Firm takes on a broader range of tangible, manufacturing-related functions, such as sourcing inputs and inbound logistics, as well as production. • The supplier may also take on outbound distribution activities. • The supplier may produce in-house knitted or woven textiles.	• Firms learn buyer preferences and build relationships with textile suppliers and retail outlets. • Recruit experienced employees from the textile industry. New staff hired for financial and logistics functions.
	Niche supplier Specialization in specific products	Sri Lanka Mexico Morocco Mauritius		
ODM Full Package with Design	Strategic supplier High value, complex products or volume	China India Turkey South Africa	• Supplier carries out part of the pre-production processes, such as design or product development. • Design may be in collaboration with the buyer, or the buyer may attach its brand to a product designed by the supplier. • In many cases, ODM firms work with designers from the lead firms to develop new products.	• In-house designers work in tandem with designers from the buyers to gain a deeper understanding of preferences. • Design functions require innovative skills related to new product development and knowledge of global standards, process and IT upgrading.
OBM Brand Development	Brand owner Domestic market and potential development to regional brand and lead firm		• Supplier acquires post-production capabilities and is able to develop products under own brand. Two options: • Supplier maintains a relationship with the buyer and develops brand collaboratively. • Supplier establishes its own distribution channels by establishing a new market channel that is typically more profitable and allows the firm to expand skills. These are often local or regional markets.	• The supplier develops know-how related to brand promotion from lead buyers. • Firms hire employees with skills related to marketing and consumer research. • Developed country consultants can provide training for the firm.

Appendix 6.1: Functional capabilities in the apparel global value chain

Source: Author, with data provided by Fernandez-Stark et al. (2011), Gereffi (2010) and Farole & Winkler (2014)

Functional Categories	Capabilities	Country Examples*	Description	Workforce development
Full Package Service Provider	Transnational manufacturers; Traders, Agents Coordinate global supply chain and OEM or ODM activities	Hong Kong, South Korea, Taiwan (1980); Malaysia, Singapore (1995); Thailand (2010)	• Suppliers or agents capable of bundling and selling the entire range of manufacturing and logistical activities across transnational production and sourcing networks. • Contract out manufacturing or invest in production in foreign countries or coordinate global production networks as trading houses/sourcing agents.	• Intermediaries provide the link between producers and retailers. • Technical and knowledge-intensive activities such as product development and design, sample making, quality control, warehousing, logistics, IT, marketing and financing.
Global Lead Firm	Global brand owner	EU USA Japan	• Marketing and retailing • Research and design	

Example of tariff differences for selected SSA and Asian clothing exporters (%) Product category HS 610120 (Men and boy cotton knit coats)			
	United States	**European Union**	**South Africa**
Kenya	0 AGOA Preference	0 EPA Preference	40 Applied MFN duty
Lesotho	0 AGOA Preference	0 EBA & EPA Preference	0 SADC Preference
Madagascar	0 AGOA Preference	0 EBA & EPA Preference	0 SADC Preference
Mauritius	0 AGOA Preference	0 EPA Preference	0 SADC Preference
South Africa	0 AGOA Preference	0 Bilateral Trade Agreement	0 SADC Preference
Swaziland	0 AGOA Preference	0 EPA Preference	0 SADC Preference
Cambodia	15.9 Applied MFN duty	0 EBA Preference	40 Applied MFN duty
Bangladesh	15.9 Applied MFN duty	0 EBA Preference	40 Applied MFN duty
China	15.9 Applied MFN duty	12 Applied MFN Duty	40 Applied MFN duty
India	15.9 Applied MFN duty	9.6 GSP Preference	40 Applied MFN duty
Pakistan	15.9 Applied MFN duty	9.6 GSP Preference	40 Applied MFN duty
Sri Lanka	15.9 Applied MFN duty	0 GSP+ Preference	40 Applied MFN duty
Vietnam	15.9 Applied MFN duty	9.6 GSP Preference	40 Applied MFN duty
	The US offers DF access to SSA, NAFTA and Central American and Caribbean countries. To qualify, exporters generally have to satisfy triple transformation RoO. For SSA LDCs, the TCF special rule allows yarn and fabric to be sourced anywhere in the world for single transformation in SSA. TCF does not apply to South Africa.	The EU offers DF access to EBA, EPA and GSP+ countries. EBA RoOs were relaxed in 2011 and require only single transformation. Since 2008, the EPAs, which were predated by the Lomé Convention and Cotonou Agreement that both required double or triple transformation, stipulate single transformation RoO.	SADC offers DF access to all members conditional on double transformation RoO, except for members of the South African Customs Union (SACU) for whom single transformation applies. The principle of regional cumulation applies to the RoO whereby fabric and yarn can be sourced anywhere within the region.

Appendix 6.2: Preferential agreements covering SSA apparel exports

Source: Author, based on ©World Trade Organization (WTO) 2014 and adapted from Staritz (2011)

AGOA (enacted by the US in 2000)	EBA (enacted by the EU in 2001)
Applies equally to all SSA LDCs and non-LDCs and extends GSP coverage. it includes a special rule for LDCs on flexible RoO on apparel (TCF provision). **Eligibility** is reviewed annually and determined by political conditionality (rule of law, foreign policy objectives, barriers to trade and investment, etc.). Added LDC benefits are defined by economic criteria (per capita ceiling with exceptions). **Beneficiaries** (2013) 40 of the 48 countries in sub-Saharan Africa, with 24 covered by LDC provisions.	**Applies** uniformly to all LDCs including in SSA. Provides DF access under flexible apparel RoO. Relations with SSA non-LDCs fall under the EPAs. **Eligibility** is determined by GSP requirements that include economic criteria (LDC status defined under a UN ranking based on per capita income, human assets and economic vulnerability) and basic political criteria (human rights). **Beneficiaries** (2013) 27 out of 34 SSA LDCs but excluded low-income nations not classified as LDC.
AGOA and EBA are non-reciprocal agreements: Under WTO rules, the GSP allows for non-reciprocated preferential treatment for products originating from developing countries, with an expanded list of items for LDCs (GSP+).	

MFN tariffs in leading SSA end markets (2014)			
	Textiles	**Clothing**	
	Average MFN tariff	Average MFN tariff	Tariff variations
United States	7.5%	10.8%	0-32% Cotton: 0-17% Synthetic: 0-32%
European Union	6.7%	11.5%	0-12%
South Africa	21%	36.9%	0-40%

SADC member States
Angola – Botswana – DRC – Lesotho – Madagascar – Malawi – Mauritius – Mozambique – Namibia – Seychelles – South Africa – Swaziland – Tanzania – Zambia - Zimbabwe

Acronyms
SSA = Sub Saharan Africa
LDC = Least Developed Country
DFQF = Duty-free Quota-free
GSP = Generalised System of Preferences
MFN = Most Favoured Nation
AGOA = African Growth and Opportunity Act
TCF = Third Country Fabrics
EBA = Everything But Arms
EPA = Economic Partnership Agreement
SADC = Southern African Development Community

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Chapter 6

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In this book Primo Braga and Lehmann have provided important insights and vivid illustrations in respect to the new realities of the global business environment. ***New Realities: Business Dynamics at the Frontiers of Globalization*** will help those seeking to navigate through today's turbulent and uncharted global business waters.

Michael Garrett

Former Executive Vice President for Africa, Asia, Middle East and Oceania, Nestlé, and Chairman of The Evian Group.

Globalization is in trouble – it faces tectonic shifts in economic power and a dearth of political leadership. The post-war framework is crumbling and economic challenges are mounting. In ***New Realities: Business Dynamics at the Frontiers of Globalization***, Primo Braga and Lehmann have collected a worthwhile series of assessments of where the global economy may be headed. Since we are in a state of flux with respect to our economic models, it is both valuable and timely. This book significantly increases our understanding of what lies ahead and what might be done to steer a better course.

Danny Leipziger

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Has globalization reached its peak and started an irresistible decline? How should we interpret some worrying signs: the continuing debate on the "secular decline" of advanced economies, the uncertainty regarding China's future growth, the headwinds brought by a shrinking demography, by the diminishing effect of technological innovation, by the slowing or stagnating pace of productivity progress? Above all, what to make of the sudden reversal of decades of expansion of international trade at rates consistently superior to world output increase? This is not a merely academic discussion as ***New Realities: Business Dynamics at the Frontiers of Globalization***, Primo Braga's and Lehmann's insightful book shows. Much, if not all, of the development policy advice over the last decades has depended on the firm belief that globalization and its corollary, international trade mainly in manufactures, provided the best approach to integration into the world economy and full development. If we question the assumptions behind this belief, what would be the consequences in terms of policy change? We may not be able to offer a satisfactory solution to every doubt arousing from a process still developing in front of our eyes. However, for all those interested in the realities taking shape around us, nothing could be more helpful than a well informed and richly researched analysis as Primo Braga and Lehmann provide us in this new book.

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