Export Processing Zones in Namibia:

Taking A Closer Look

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The findings of this report are based on an in-depth study of available literature and documentation on the topic. We also conducted interviews with the Offshore Development Company (ODC), the Walvis Bay EPZ Management Company, the previous mayor of Walvis Bay, managers of EPZ companies, trade unionists as well as with 172 workers at EPZ and other companies. We are grateful for the contributions made by all of them and wish to express our appreciation for the frank and open manner in which they were prepared to contribute to this research project. The interviewees included (in alphabetical order):

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- Ms Fernanda, Tax Free Warehouse
- The late Mr Axel Gehre, Namibian Press and Tools
- Mr Ulrich Hartmann, Namibian Press and Tools
- Mr Libolly Haufiku, Walvis Bay EPZ Management Company
- Mr S. Hrywniak, Walvis Bay Chamber of Commerce
- Ms Adelaide Bobby Kandjala, Metal and Allied Namibia Workers Union
- Mr Deon Kleinschmid, Marine Ropes International
- Mr Manuel de Castro, former major of Walvis Bay
- Ms Anglique De Klerck, NamGem
- Mr Gert Kock, Libra
- Ms Anita Jansohn, Johanna Haida Teddy Bears
- Mr Knowlege, Barden International
- Mr J.A. Kruger, Municipality Walvis Bay
- Mr Frikkie Mouton, Ostrich Production Namibia
- Mr Phillip Namundjebo, Offshore Development Company
- Mr Hafeni Ndemula, formerly National Union of Namibian Workers
- Mr Cleophas Ngwena, Namibia Food and Allied Workers Union
- Mr Bernhard Petrus, Namibia Seamen and Allied Workers Union
- Ms Ping, New Sun Household Namibia

- Mr Deon Visser, formerly Walvis Bay EPZ Mangement Company
- Ms Barbara Von Weidts, Namib Foam

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Abbreviations

CEO: Chief Excecutive Officer

EPU: Export Processing Unit

EPZ : Export Processing Zone

FES: Friedrich Ebert Stiftung

GRN: Government of the Republic of Namibia

ILO: International Labour Organisation

ICFTU: International Confederation of Free Trade Unions

IDL: International Division of Labour

LaRRI: Labour Resource and Research Institute

MoL: Ministry of Labour

MTI: Ministry of Trade and Industry

NIC: Newly Industrialising Country

NIDL: New International Division of Labour

NUNW: National Union of Namibian Workers

ODC: Offshore Development Company

SAP: Structural Adjustment Programme

SME: Small and medium sized enterprises

SWAPO: South West Africa People's Organisation of Namibia

TNC: Transnational Company

UNCTC: United Nations Center for Transnational Corporations

WBEPZMC: Walvis Bay EPZ Management Company

WTO: World Trade Organisation

Executive Summary

As part of its strategy to become an internationally competitive investment location, the Namibian Government introduced the EPZ Act in 1995. The Government hoped that EPZs would attract foreign investment to Namibia and boost the country's manufacturing capacity. It also expected the creation of 25 000 jobs in the EPZs between 1997 and 1999.

Several special incentives are offered to EPZ companies including a corporate tax holiday, exemption from import duties, free repatriation of profits, factory facilities at economic rates and a guarantee of free repatriation of capital and profits. Another incentive offered to foreign investors is the exclusion of the right to strike for an initial period of 5 years. This provision will be reviewed during this year and the findings of our study are meant to provide a sober analysis of Namibia's EPZ programme in terms of job creation, working conditions and contribution to the country's overall economic development.

During 1999, the Labour Resource and Research Institute (LaRRI) carried out an in-depth study of available literature and documentation on EPZs. We also visited all operational EPZ companies to conduct in-depth interviews with EPZ managers, government officials and 86 EPZ workers. Additional interviews were conducted with over 100 workers in the fishing industry, at labour hire companies as well as with unemployed workers to asses the broader socio-economic situation of Namibian workers.

We found nine EPZ companies being operational at present. These are Johanna Haida teddybears, Swakopmund, Namibia press and Tools, Libra and Marine Ropes International in Walvis Bay, Namgem diamond manufacturing in Okahandja, Ostrich Production Namibia in Keetmanshoop, New Sun Household Namibia in Tsumeb, the Tax Free Warehouse and Goran Enterprises in Oshikango. In addition, Transvehco and Namibia King Lion Company have recently started operating in Walvis Bay. The other companies listed by the ODC were either not operational during our field work or had decided to drop their EPZ status (e.g. Oshikango Foam and Mattresses).

The total investment of the operational companies so far is about N$ 130 million. Ostrich Production Namibia – which is a rather atypical EPZ company - accounts for about 70 million while the rest is shared among the remaining companies. The average investment of an EPZ company stands at about N$ 13 million. This figure drops to N$ 6,25 million if Ostrich Production Namibia is excluded.

The total employment of the currently operational EPZ companies stands at about 400 of which about 150 are employed by Ostrich Production Namibia alone. Namibian citizens hold most EPZ jobs although about 16 technicians and managers are foreign nationals (British, Chinese, German and South African).

It is often claimed that EPZ companies create indirect jobs in the broader economy. This is difficult to quantify but it seems that very few employment opportunities were created through servicing of EPZ companies. Most EPZ companies either carry out their maintenance work 'in-house' or require services only occasionally. The most common services used by EPZ companies are transport services as EPZ companies tend to import almost all their machines, raw and input materials and export their final products.

Almost all EPZ workers were unskilled at the time when the EPZ companies employed them. Most of them received some basic on-the-job-training, which lasted a few hours, a few days or several weeks. One company claims to train workers over several years to become fully skilled machine operators while 3 EPZ companies sent some of their employees on 1-4 weeks training courses to South Africa. A basic feature of the training usually given to EPZ workers is that the skills acquired are usually not transferable. They are limited to the specific task carried out at the company.

EPZ companies are not utilising the 75% training refund incentive for EPZ companies. This is the result of government's inability to make budgetary provisions for training but also as a result of some companies decision to invest as little as possible in training. As one company manager explained: 'training workers on the job is quicker and cheaper'.

Almost all EPZ companies import their machines, raw materials and input materials form outside Namibia. Most companies indicated that these items are not available on the local market and/or that other companies in Namibia do not use the machines and materials of EPZ companies. Some companies import materials and machines from South Africa but most EPZ companies utilise the duty free import scheme to import these items at a lower price from overseas countries in Europe and Asia. The purchase of packaging materials, the occasional servicing of machines and the utilisation of Namibian transport services are the only links between EPZ companies and the local economy.

The machinery used in EPZ companies is usually not highly sophisticated but serve the specific production process at the EPZ Company. There seems to be no technology transfer from EPZ companies to other firms in the local economy and it seems unlikely that such a transfer will take place in future.

The costs of the EPZ programme are substantial and include:
the costs for the development of EPZ infrastructure; the government loan to the Offshore Development Company; the staff and administrative costs at the ODC and EPZ Management Companies; the costs for municipal staff seconded to the EPZ programme; subsidised services to EPZ companies; the costs of promotional trips and promotional materials; foregone government revenue as a result of tax exemptions and economic distortions due to the special incentives for EPZ companies.

Labour relations continue to be one of the problem areas relating to EPZs. However, there seem to be significant differences between the individual EPZ companies. At some, labour relations seem to be fairly stable with few conflicts while at other companies labour relations are hostile.

Collective bargaining hardly takes place at EPZ companies and only one EPZ company has signed a recognition agreement with a trade union. Some companies hold regular meetings with workers to discuss problems and possible improvements, some try to discuss wages with workers directly, some companies decide on conditions of service unilaterally and few are in favour of negotiating with trade unions. There seems to be a widespread mistrust among EPZ companies against trade unions. They are widely seen as instigators of workers who expect too much and table unrealistic demands.

Trade unions experience problems when trying to organise at EPZ companies. They feel that some companies are not respecting the labour act and our study found at least 2 companies violating the act. Trade unions also feel that EPZ companies are not negotiating in good faith because they know that EPZ workers cannot go on strike. Union organisers also reported that EPZ companies tend to threaten with dis-investment whenever workers table demands.

Most EPZ workers define themselves as «migrants», non-permanent residents in their town of employment. Only about half of them are permanently employed and they experience low salaries, poor benefits and dangers to their health and safety as the major problems.

Although EPZ workers have higher levels of education than workers in other industries do, they are poorly paid – lower than the 'normal' wages in the local labour market. The average wage for semi-skilled and unskilled EPZ workers stands at N$ 735, - per month. The average wage increases to N$ 815, - per month if skilled workers are included.

Women workers in the EPZs earn lower wages and receive fewer benefits than men.

At 2 EPZ companies there are very serious concerns about health and safety conditions. Workers are exposed to chemical fumes, heat or cold coupled with a lack of adequate protective equipment and the absence of independent monitoring

Racial discrimination is the dominant form of discrimination experienced by EPZ workers. There are also indications of discrimination against workers who joined a trade union as non-union members receive more benefits than unionised EPZ workers do.

The no-strike clause in the EPZ Act is welcomed by most EPZ companies and has weakened the bargaining position of trade unions. The Namibian government will now have to make a choice. It can either continue to try and attract foreign investment on the basis of weakened labour rights or ensure that basic rights are enjoyed by all workers in Namibia.

Our findings indicate that the EPZ programme has been of limited success thus far. The amount of actual investments received and the number of jobs created are rather small and do not justify the view of the EPZ regime as a major success. A sober analysis has to be undertaken in terms of the costs and benefits of the programme to determine its suitability for Namibia.

There is a need to safeguard fair labour practices as well as adherence to health and safety standards and to the provisions of the Labour Act. It seems advisable that government institutions should play a far more active part in this regard and respond promptly to the concerns raised by employees of EPZ companies and their trade unions.

The EPZ programme is underpinned by a low skill – low wages strategy which is unlikely to solve Namibia's burning socio-economic problems. A systematic programme of skills development coupled with targeted support for specific local industries and SMEs could be a more viable option. This should include support for industrial projects aimed at processing local materials.

Introduction

The Study

This study of the Namibian EPZ experiences aims to cover the most important aspects of the EPZ programme that was introduced in 1995. We hope that our study will provide a basis for discussion and debate on the Namibian EPZ programme as part of the country's industrialisation strategy. The provision outlawing the right to strike and lockout has been at the centre of the controversies surrounding EPZs so far. This provision will be reviewed during this year and the findings of our study may assist with a sober analysis of Namibia's EPZ policy. Such an analysis, however, cannot be limited to the right to strike but also has to deal with job creation, working conditions and the EPZs' contribution to the country's overall economic development.

Namibia's EPZ initiative is relatively new and this study can only summarise and evaluate the experiences *so far.* This implies an investigation into experiences of the EPZ companies that have started production, interviewing both employers and employees, as well as undertaking discussions with the administrators of the zone and others regarding policy and problems as seen from their points of view. At the present stage a comparison of the *expectations* that the Namibian Government has regarding the outcomes of this particular industrialisation initiative, with the experiences of EPZs in *other* countries is particularly interesting. It may aid the formation of criteria that can be used to evaluate the initiative at a later stage. A major purpose of the present paper is therefore to summarise experiences based on empirical investigations from other EPZ countries and to compare them with the Namibian experiences.

The study is based on empirical material collected in Namibia in 1998 and 1999. The data on which the analysis is based, was collected by interviewing EPZ company managers and workers, EPZ management companies, government officials and local authorities. The major part of the study is based on data from workers and companies, both within the designated EPZs in Walvis Bay and Oshikango and in EPUs, single companies with EPZ status.

Part One of this report puts the Namibian experiences into a broader context. Referring to major theories explaining the EPZ phenomenon in the era of 'globalisation', focus is placed on topics which highlight the role of EPZ in the industrial development of developing countries. Although literature on EPZ is extensive, empirical studies of African EPZ initiatives are few (with the notable exception of Mauritius). Experiences from African EPZs are therefore included where available, whereas the more well-known and well-documented Asian cases are not reflected in great detail. The case of the Namibian EPZ is presented in **Part Two** and in **Part Three** of this report. Part Two concerntrates on information at company level, whereas information on the EPZ workers are presented in Part Three. **Part Four** summarises the findings, and contains our conclusion.

Defining Export Processing Zones

According to Proctor and Markman (1995), an EPZ is

> *«a delineated, enclosed and policed area of a country which has an industrial estate specialising in the production of manufactured goods for export»* (p. 7).

This definition should be applied to EPZs in cases where they are fenced off industrial enclaves that are physically, socially and economically segregated from the rest of the country. Such enclave-EPZs were designed partly for political considerations and partly to allow easy control and to protect local industries (ILO 1998:10). UNIDO (1980) defines EPZ in similar terms, defining the concept as

> *«a relatively small, geographically separated area within a country, the purpose of which is to attract export-oriented industries, by offering them especially favourable investment and trade conditions as compared with the remainder of the host country. In particular, the EPZs provide for the importation of goods to be used in the production of exports on a bonded duty free basis»* (p. 6).

The above definitions are thus designed to capture cases where zones are geographically defined; where a government has proclaimed that special conditions exist in a limited area, normally close to a port or an airport. EPZs are not necessarily *small* areas; the Chinese EPZs, for instance, cover very large areas.

As countries experienced several problems with enclave zones, they started introducing Export Processing Units (EPUs), single firms operating under EPZ status. These are more common in some countries such as Mauritius. According to Kelleher (1992a), Mauritius has declared the whole island a «free zone». In other words, EPZ status is given to any enterprise, which produces exclusively or predominantly for export purposes. The aim is to integrate the EPZ into the local economy (Proctor and Markman 1995:7, ILO 1998:10). This is the concept applied in Namibia where EPZ companies are found both in designated, geographically separate zones, and as single units in different parts of the country. Selecting an EPU strategy provides flexibility for the investors. Companies may have a variety of reasons for *not* locating production in special zones, one of them being proximity to natural resources to be exploited in production. The relatively recent EPU policy takes such interests into consideration[1].

There are thus differences in the way countries set up and operate their EPZs. Some operate as fenced-in zones, others are EPUs, located "anywhere", in industrial parks or in urban industrial estates. China alone has 7 different types of zones ranging from industrial parks and high technology zones to entire cities. Whether zone or unit, the main purpose of these programmes proclaimed by governments are to secure an exceptionally amenable investment climate for foreign and in some cases local investors that manufacture goods

[1] The relative merits of enclave EPZs and EPUs are discussed in Ligthelm & Wilsenach (1992), emphasising different regional outcomes of the foreign investments. The issue is also briefly treated in Kelleher (1992a).

for export[2]. The zone regulations may be amendments to the laws regulating foreign investment in general, or there may be special laws regulating conditions in the zones.

Nearly everywhere?

Historically, EPZs may be seen as an extension of the function of zones which were established for commercial purposes (trade, packaging and warehousing in free ports or free trade zones), where manufacturing was not permitted. Almost all of the 200 EPZ in the world were established after 1971. There were only two in developing countries before the mid-1960s. Most EPZs in developing countries are located in Latin America and Asia, and their sizes vary from a few small factories to extensive areas employing tens of thousands of workers. The city states of Hong Kong and Singapore have a long history of EPZ policy, as has Taiwan, South Korea and the Philippines, but the establishment of an EPZ in China is fairly recent, starting in 1979 (Dicken 1998). In Latin America, Mexico has the most extensive EPZ programme, Brazil has only one EPZ whereas Colombia has several, and the number in the Caribbean is increasing rapidly. There was a slow-down in the establishment of EPZ globally from the early 1980s, following extensive critique on working conditions in the zones (Kelleher 1992a). Depending on the EPZ definition used, the total number of employees in the EPZ of developing countries stands at about 4 million (Dicken 1998). However, the ILO (1998:1) estimates that the total number of EPZ workers worldwide could be as high as 27 million. This figure is based on a very wide definition of EPZ and includes China's special economic zones.

The map showing the world distribution of EPZs in Dicken (1998) has not a single «dot» on Africa, despite the fact that that currently, 25 African countries have implemented EPZ policy or are in the process of doing so, among them most Southern African countries. Zimbabwe, Namibia, Malawi and Mozambique have already passed national EPZ laws, Zambia wants to follow soon and EPZ proposals «in disguise» are even appearing in South African policy documents (Jauch 1997). The African EPZs count for much of the recent increase in the number globally.

Measured in terms of world exports[3], the share of the EPZs is insignificant, but the economic and social impact of the zones may be substantial at national level. In some smaller economies such as Malaysia, Sri Lanka, the Dominican Republic and Mauritius, the zones are very important in terms of exports and also for employment, especially of women. The predominance of young female workers have been explained by the types of industries that are most common within the EPZs, namely textiles, clothing and the assembly of electronics. According to Dicken (1998) roughly half of all the employees in Asian EPZs are found in the electronics industry, practically all of them production workers. The prevalence of women workers in EPZs can also be explained as the result of a perception among EPZ employers who consider female labour to be more docile and

[2] In the literature, several concepts denote such zones; a recent study identified 23 different terms of which 22 included the concept of zone, the last was «maquiladora» (UNCTC 1991). Examples are free trade zone, free economic zone, free production zone, special economic zone (China), investment promotion zone (Sri Lanka), industrial free zone (Liberia, Mozambique), pioneer industries (Lesotho) (see ILRIG 1996). Some authors claim that the first EPZ was Shannon in Ireland, a free airport established in 1959 (Proctor & Markman 1995, Johannson 1994, Kelleher 1992a). However, according to the ILO, the first zone was Spanish, established in 1929.

[3] The contribution of the EPZs to industrial growth must be estimated country-wise. This is outside the scope of this paper.

subdued than male. Women workers are also seen as being less inclined to join trade unions. The more directly expressed rationale is that women are better able to perform monotonous, repetitious work. Such young women workers are described as "docile and cheap workers with «nimble fingers» (Proctor and Markman 1995:10).

EPZs and world trends

The upswing in the late 1980s of the number of states that proclaimed EPZs is contrary to what should be expected when considering the prevailing ideology of liberalisation, deregulation[4] and free trade. WTO advocates free and unimpeded trade and the removal of subsidies that distort markets and give «unfair» competitive advantages to countries. EPZs are by definition areas where investors receive special incentives which may well be regarded as a form of subsidies. However, the cry for free trade seems not to impede the formation of trading blocks; competing blocks now encompass all major trading partners of the world. The principle of free movement of goods seems to apply mainly to intra-block trade. In addition, the building of on non-tariff barriers to trade under the guise of «fairness» signals a reinforcement of the «new protectionism»[5]: World trade is free in ideology only. The attempts to «manage» trade using «strategic trade policies» have become so widespread that some observers characterise the contemporary international trade regime as an era of *neomercantilism*, prevailing since the late 1970s (Dicken 1998).

The international conditions are thus not very favourable for newcomers at a time when «the battle for rapid industrialisation» is fought. The African newcomers to the EPZ «family» are outside the most important trading blocks, and the increased popularity of EPZ experiments on the continent may well be seen as a desperate responses to lure some foreign investment. EPZs can be seen as an attempt by host countries to create «low cost-high profit locations» for foreign capital invesments.

[4] The concept of deregulation denotes «the lifting or abolishing of government regulations on a range of activities in order to allow markets to work more freely» (Cerny 1991:173 in Dicken 1998:116).
[5] The so-called «new protectionism» of the 1970s denotes the quota system, the voluntary export restraints (VER) and the orderly marketing agreements (OMA) (Jenkins 1987).

Part One: EPZs - Perspectives and Experiences

Explaining Export Processing Zones

Views on the significance of Export Processing Zones (EPZs) vary according to vantage point. Governments consider them a means to obtain foreign capital investments,transnational corporations perceive them as providers of favourable investments sites, local companies may complain about unfair competition, whereas trade unions generally see them as sites of severe exploitation of labour by capital. Between actors at the national level, there is thus a polarisation of opinions, paralleling views ontransnational corporations summarised in the headline «Beauty or Beast?» (Dicken 1996). These viewpoints of major actors serve as a principle to sructure **Part One**. Here, governments' justifications for EPZ initiatives are treated; questions on the nature and strategies oftransnational corporations investing in the zones are addressed, as well as the potential co-operation and conflict of interest between foreign and local companies. Lastly, views of social costs and benefits of EPZ investments are discussed. The perspectives serve as the basis for the research questions of the in-depth study of the Namibian EPZ experiences covered in **Parts Two and Three**.

The phenomenon of EPZ should be explained in terms of *strategies of companies* as well as *policies of states*; the former in search of low cost or high profit locations, the latter trying to create favourable sites for capital investment. The EPZs may be seen as focal points where these two interests harmonise; their specific locations are manifestations of contemporary forces of internationalisation and globalisation of production.

Policies of States

Indeed, increased *co-operation* between states, evident in the formation of regional trade blocks and in bilateral trade agreements, has done little to discourage the *competitive struggle* between them. Stimulating inward investment as a «growth and development» strategy is pursued both in developed and developing countries, and therefore, throughout the world, countries «are involved in fiercely competitive rivalry to attract foreign firms» (Dicken 1998:130). Stressing the global character of manufacturing, he notes that:

> *«Competitive bidding via overseas promotional agencies and investment incentives has become endemic throughout the world … The important point about such international (and inter-regional) competition is that for certain types of investment it is truly global in extent. For the cost-oriented transnational investments .... countries and localities in Europe and North America may well be in direct competition with locations in Asia and Latin America» (Dicken 1998:98).*

Peck (1996) considers the increased competition between states for foreign investments as an aspect only of the *reinforcement of the competition between localities at all levels* (international, regional, national and local), which is the ultimate spatial consequence of «the victory of neo-liberalism». Everywhere, localities strive to promote their assets and play down their non-assets to attract investors, and Peck claims that this has very negative consequences for the workers, an argument that is discussed more thoroughly below.

With time, the differences between the bids of the participants in the competition for investments should be expected to become minimal: To gain a competitive edge, the incentives offered by all competitors are studied and adopted if possible. In the context of EPZs, this may result in «a race to the bottom»: When potential investors are presented similar «technical» incentives, what are left in the bargain basket are labour standards (wages and work conditions) and environmental standards. Governments, in the same manner as firms, may undercut their competitors. The fear that competition will lead to deteriorating working conditions is explicitly expressed by the leader of the Africa office of the International Confederation of Free Trade Unions (ICFTU), Andrew Kailembo. He claims that the governments invest heavily into the EPZs aiming at industrial development, but the winners are thetransnational corporations, who can move from country to country to exploit differences in wages and legislation. Placing EPZs in the current globalisation processes, the unionist argues that countries with a decent policy will be unable to compete fairly with such EPZs:

> *«We stand to lose in international markets to countries that do not observe basic labour standards»* (The Namibian, April 9, 1998).

Characteristics of the labour force are indeed emphasised when governments of developing countries strive to sell the local to the global:

> *«The resource which most developing countries stress at the primary export-oriented industrialization phase is undoubtedly that of their* ***labour force****. Virtually every glossy brochure - and some are very glossy indeed - put out by national economic development agencies eulogises its quantity, quality and, with some recent exceptions, its relative cheapness»* (Dicken 1998:130, emphasis in the original).

Abundance of cheap labour, rapid growth of the labour force and the corresponding need for workplaces are common characteristics of developing countries. It is, however, worth noting that «cheap» labour does not necessarily equate «low productive» labour. Differences in wage levels between North and South do not mirror differences in productivity levels, which further increases the competitive advantage of developing countries.

Another potential competitive advantage of developing countries may be lax environmental regulation regimes. The extent to which governments promote this as competitive advantages for companies – developing countries as «pollution havens» – and the extent to whichtransnational corporations make use of the possibility to produce «dirtier and cheaper», is the subject of a long debate[6]. The temptation for companies to take advantage of geographical variation in environmental regulation regimes may be great, and in view of the evidence of lax *labour* regulation in EPZs, the relevance of the hypothesis on lax *environmental* regulation as a means to attract investments to the EPZs seem obvious.

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[6] See for instance Knutsen 1996, Bergstø et al. 1995, Hesselberg & Knutsen 1994 and Bergstø & Endresen 1992.

Strategies of Companies

Probing into the dynamics of economic change, the phenomenon of EPZ has been explained in terms of *technological changes*, namely changes in the technical division of labour[7] of certain production processes. In the 1960s and 1970s, the possibility of splitting up (fragmenting) of the production processes into spatially separated units had increased with new technology, and together with the communication revolution enabled a change of the locational strategies of companies. Certain stages of the production process involving «standardised operations» could be relocated; for instance, labour intensive stages of the production process could be shifted to host countries possessing cheap labour, while capital intensive stages, management and R&D functions remained in the home country. Such company-level, strategic decisions led to changes of the spatial division of labour to the extent that some theorists proclaimed a New International Division of Labour (NIDL); the most well known being Fröbel, Heinrichs & Kreye (1980) [8]. The falling levels of investment and employment in manufacturing in the major industrialised countries were said to correspond to the increased level of investment and employment in developing countries. A further, massive «redeployment of the factors of production» − involving a shift of «low quality» jobs from the North to the «world market factories» of the South − was expected.

The explanatory power of the NIDL theory has been questioned; Jenkins (1987) especially attacks its over-generalisations. According to him, the phenomenon of relocation cannot be viewed as a general, necessary or inevitable outcome of capitalist industrialisation:

> *«The relocation of production to EPZs in the Third World is not a general tendency of capital ... It is only at certain times and in certain branches where there are major obstacles to increasing relative surplus value that relocation has emerged as a specific response. In the 1960s and 1970s such conditions existed in clothing and electronics, where economic and technological considerations made increased mechanization difficult with existing technologies» (p. 133).*

The job-losses in industrialised countries cannot be attributed solely to «a zero sum game» of relocation, but are linked changes in domestic demand as well as to technological changes leading to increased productivity; these are processes *internal to* industrialised countries.

Another attack has focused on the «monocausal» stance of the NIDL theory. There are several reasons − in addition to cheap labour − why companies may prefer to locate production in developing countries, and gaining access to expanding markets is a prominent one among them. Besides, production that was relocated was not always labour intensive and did not employ low skilled workers only. Furthermore, establishment of

[7] The concept of *technical division of labour* «refers to the disaggregation of a given production process into discrete stages, and the consequent specialisation of workers in each of these stages», the concept of *social division of labour* refers to the specialisation of functions performed by individuals and organisations of society, whereas the *spatial division of labour* denotes the specialisation of production by geographic zones at various spatial scales (Coffey 1996, p. 40-41).
[8] Among the first to use the concept of New International Division of Labour (NIDL) was Lacharrière (1969) and Palloix (1977). The German version of Fröbel, Heinrichs & Kreye came in 1977.

subsidiaries abroad did not always result in the simultaneous closure of the home production unit. On the other hand, few authors question that foreign direct investments from the core economies contributed (in some cases substantially) to the rise of the Newly Industrialising Countries (NICs). And there is little reason to question the validity of the NIDL «cheap labour» stance when searching for explanations of the location and relocation to EPZs of textiles, clothing and especially, electronic assembly production units *during the early years of EPZ development*. However – and summing up the critique of the NIDL theory – factors explaining contemporary global restructuring are more complex than the pull of cheap labour. There have been technological changes as well as changes in retailing; competition has intensified, niche markets have developed, and most interesting in our context, the phenomenon of «global sourcing» (see below) has increased in importance (Gereffi 1994b). This brings us into the core of the contemporary debate on the character of the international division of labour, which looks beyond the narrow preoccupation with the North – South «relocation dimension» of industrial restructuring.

NEWER-IDL and EPZs

Exploring the contemporary international division of labour, Coffey (1996) claims that there has by no means been «a clear break» with the NIDL. He refers mainly to the industrialisation of the semi-peripheral countries of Asia, the NICs, when arguing that processes associated with the NIDL are still at work; even *more generalised* now than in the 1980s. However, certain distinct changes are prominent enough for him to speak of a *Newer* International Division of Labour (NEWER-IDL). Characteristics of the latter are increases in *subcontracting*, *outward investment of the NICs, relocation of services*, and *cross-investment by core economies*. The latter two tendencies refer firstly to the fact that sometransnational corporations have started to relocate service operations to low labour cost locations which possess highly skilled labour, and secondly, to the substantial increase in the *magnitude* of investments flows between industrial countries. Of special interest in our context, however, are the outward investments from the NICs and in particular, the increased importance of «global sourcing» and subcontracting arrangements[9]. The result of the latter is *the expansion of vertically integrated production networks*. These networks are historically new, highly complex and global in character:

> *«Materials, semi-finished products, components and finished products are transported between geographically dispersed production units in a highly complex web of flows. ... The output of a manufacturing plant in one country may become the input for a plant belonging to the same firm located in another country. Alternatively, the finished product may be exported to a third-country market or to the home market of the parent firm»* (Dicken 1998:217).

The concept of «global sourcing» captures this company strategy, and the role of host countries in developing countries has often been described as «export platform», a concept which covers cases where manufacturing is undertaken in «workshop affiliates» as well as in cases where only «warehousing» is done.

Coffey (1996) also stresses the importance of «global sourcing», arguing that there is a tendency for core companies to eliminate or substantially reduce their physical production

[9] A discussion of the concept of subcontracting can be found in Holmes (1986), and global sourcing of products as a company strategy is treated in Bergstø, Endresen & Knutsen (1997).

capacity in favour of supply relationship with subcontractors. International production relations are now to a lesser extent characterised bytransnational corporations which have parent companies in developed countries, and branch plants, licensed production or joint ventures producing in developing countries; all of which involve «close» and «formal» relations between the different units. To a larger extent than before,transnational corporations instead search for stable supply relationships with local producers. This sourcing for products results in

> *«fluid networks that add value by coordinating activities across geographic and corporate boundaries»* (Coffey, 1996:55).

The outcome is «leaner» production and increased industrial flexibility of thetransnational corporation (Holly 1996).

The strategy of subcontracting has been extensively used by the producers of computers[10] and clothes[11], and especially, in the production of athletic footwear. Donaghu & Barff (1990) conclude that the production network in the latter industry could be termed «large scale vertical *disintegration* of functions» (p. 539, emphasis added). One could argue that the flexibility gain to thetransnational corporation resulting from the «looser» or «less formal» relations corresponds to the loss of development opportunities of the supplier in the developing country. The potential for technology transfer may be greater in «close» relationship between parent and affiliate as opposed to «arms-length» and subcontraction transactions. Consequently, «loose global sourcing» may strengthen technological dependency and reinforce the subordinate role which developing countries hosting labour intensive stages of production have.

Explanations provided by NIDL theorists of the expansion of manufactured exports from developing countries (including EPZs) concentrated on changes in the *technical* division of labour (see Footnote [8]). The NEWER-IDL theory, on the other hand, focuses on changes in the *social* division of labour, namely in the organisation of firms that form global webs of relations. The NEWER-IDL theory thus provides us with the hypothesis that investors in the EPZs more and more will consist of «independent» producers, subcontractors with stable supply relationships with companies based in developed countries. But one should not jump to conclusions: There will probably be important geographical variations in the extent of subcontracting arrangements according to the industrial sub-sector in question. Although companies in core countries now may obtain control over production in the periphery without needing to resort to foreign direct investments, Dicken (1998) continues to stress the importance of «formal» production relations, arguing that

> *«...practices of international intrafirm sourcing have become an increasingly important mechanism of global integration of production processes»* (p. 219, emphasis added).

[10] See Henderson (1994).

[11] The strategy of the jeans company *Levi Strauss* is discussed in Elson (1989) and that of the clothing company *Benetton* in Murray (1989).

and he especially mentions the role of EPZs in this context[12]. From this debate follows that in studies of both local and foreign investments in EPZs, the forms of «global sourcing» – whether resulting in «loose» or «close» relations between firms – should be analysed.

The last significant, new tendency of the NEWER-IDL mentioned by Coffey (1996) is the flow of outward investment from the NICs. A probable explanation is that internal socio-economic processes in the NIC countries have made it difficult to keep up their competitive advantages. Examples of such processes are the upgrading of labour skills which is linked to more up-market company strategies, for instance the high-technology strategy of Taiwan referred to below; another example is increased union pressure which even in repressive regimes such as South Korea has contributed to wage increases. Recently, therefore, the flow of investments from the NICs to countries where the labour force is less paid and more compliant, has been observed. An external factor which has contributed to these investment flows, particularly in the textiles and garment industry, is that by moving production units to another country, this country's export quota can be exploited. Developing countries, and EPZs in particular, are thus used as bases from which transnational companies circumvent trade restrictions and quotas in desirable foreign markets such as the EU and the USA, restrictions which they have to face when operating from within their home countries. This is one of the particular attractions of EPZs located in ACP (African, Caribbean and Pacific) countries, because they have preferential access to European markets through the Lomé Convention. Due to their own lack of manufacturing capacity many ACP countries do take advantage of such preferential access.

It is interesting to note that some authors (including Coffey 1996) see the transnationalisation of NIC companies as «a move up the development ladder» for the NICs. However, steps taken by NIC companies to avoid higher wages – and thus failing to induce improved living conditions in their home country – can hardly be termed development for the country in question; rather, it is an act of *evasion of development*[13]. However, *other* developing countries may gain capital investments or increased subcontracting arrangements due to this «evasion». In the EPZs, we should thus expect «advances» from NIC-based transnational corporations wanting to relocate production in sub-sectors where wage levels and union struggle at home have become 'intolerable', or when they have reached the quota limit in their exports to the North.

[12] Dicken, Forsgren & Malmberg (1994) questions «an unequivocal shift from Fordism (inflexible mass production of standardized goods within large, vertically integrated companies) to post- or neo-Fordism (flexible batch production of customized goods within small, vertically disintegrated, firms)» (p. 29). Referring to Cowling & Sugden (1987), they claim that «the predictions of some of the 'de-integrationalists' that an increased externalization of business functions would lead to a dismantling of TNC structures run up against the empirical evidence of continued growth of TNCs during the 1980s and also the extent to which control of externalized functions may still be exercised by the coordinating firm» (p. 29).

[13] The *developmentalism* inherent in this argument is obvious. The «normal» development track of a transnational company is perceived as follows: From being a local company only, it starts to invest in one or two other countries (becoming transnational), the second step is taken when it starts to invest or control production units in many countries across the globe (becoming global) (Dicken 1998). Simultaneously with this (historical) development we have experienced the industrialisation and diversification of the home countries' economies, leading to both social and economic development – including improved living conditions for the workers. In the debate on transnational companies originating in the NICs, their steps towards internationalisation is in fact seen as an indicator that this development process is at work in the NICs, whereas this may not be the case.

Favourable Sites of Investment

The factors explaining flows of investment into developing countries in general are definitely relevant for the explanation of investments into EPZs; localisation factors being low wages, ample supply of labour, access to expanding markets, lenient regulations, and docile labour unions. At first glance, the factor *access to expanding markets* may seem of little relevance when explaining flows of investments into EPZs: EPZ laws normally state that very little of the production can be sold at the host country's internal market. But the EPZ of a country can be located to facilitate exports to neighbouring countries. This is evident in the location of the Mexican *«maquiladoras»* along the US border.

In the present politico-economic atmosphere, it may, as noted earlier, be increasingly difficult to distinguish between the terms regulating EPZ investments and foreign direct investment in general. The WTO (1996) notes that:

> *«The recent trend to more open investment policies had been particularly evident in the removal or relaxation of regulatory barriers to the entry of FDI ... There has also been a shift away from the imposition of performance requirements and a liberalization of regulations concerning the transfer of funds»* (p. 61).

As more and more states liberalise their policies and court transnational companies, it may become difficult to differentiate between benefits given to EPZ companies and those given to «ordinary» foreign investors. However, the differences may still be significant. EPZ companies normally enjoy <<incentives>> such as tax holidays of varying lengths, in some instances total tax exemptions; and very favourable conditions regarding the repatriation of profits – unrestricted profit repatriation in some cases (Sherbourne 1993:6, ICFTU 1983:4). Furthermore, customs duties on imports and exports are reduced or totally abolished and there are more lenient restrictions regarding foreign ownership of productive assets and immigration of foreign employees. The EPZ regime may also include exemptions from labour laws; implying "flexibility" regarding working conditions and workers rights, introducing restrictions on trade union activities (Johansson 1994:388, Rosier 1995:75). Efforts are also made to lessen bureaucracy to make the initial phase of the investment period less cumbersome for the company, but what is more important is that the state normally subsidises sites for production, buildings and infrastructure such as roads, transportation and telecommunications. This difference between zone and «normal» investors may wane with increased efforts by many governments to smooth the way for all investors by constructing industrial parks or estates. Table 1 sums up incentives and concessions given in some important EPZ.

A representative of a newcomer in the EPZ game, the Namibian EPZ of Walvis Bay, claimed to have found the recipe for a successful EPZ. A favourable physical location with good international communications and smooth shipment of goods, the latter also implying that civil servants involved in the import and export of goods should be «service-minded» and fast; a good and safe urban environment with recreation facilities which would attract foreign management employees; well developed infrastructure, good financial and fiscal services; readily available credit and insurance and good marketing support (du Preez 1996[14]). He attributes paramount importance to organisational factors: there should be «bureaucratic security» (probably denoting no corruption), and freedom from interference by various government officials. The role of the official managers of the zone is considered crucial; they should provide a «one stop investor service» that reduces «red tape» by simplifying administrative procedures. In short, the EPZ concept is

> *«... a formula for making life easier for investors ... how much easier depends on how well the formula is organised and managed. (Its success depends on) the efficiency, attitude and promotion effort of the zone authority, the initiative of the private sector, proximity to and cultural links with major outward investors»* (du Preez 1996[14]).

The emphasis on the «sophisticated factors» of management and networks reflects that the competition for investments among EPZ countries have become keener; it may also reflect that it is more «politically correct» (and easier) to speak of good management than of cheap labour.

[14] Speech by the Town Clerk of Walvis Bay, du Preez, at Town Clerk's Forum, Windhoek November 8th 1996.

Table 1: Incentives and concessions in EPZs

Incentive or Concession	*Period and Country*
Exemption from corporate income tax (tax holiday)	Up to 15 years - Sri Lanka Up to 10 years - Kenya 1 - 5 years - China Only for high technology industries - Republic of Korea
Concessionary rate of income tax	Up to 15 years - Sri Lanka Up to 15% tax - China and Mauritius
Tax exemptions on share dividends to non -residents	During lifetime of enterprise - Sri Lanka and Kenya
Imported goods duty/tax free	During lifetime of enterprise - Kenya Firms bringing new technology are given better conditions (except tobacco and liquor) – China For raw material and equipment, during lifetime of enterprise - Mauritius and Malaysia
Duty-free export of finished products	During lifetime of enterprise - Sri Lanka, Malaysia and China
Exemption from Import and Export Control Act	During lifetime of enterprise - Sri Lanka and Kenya
Exemption form Exchange Control Act; Foreign Currency Banking Unit Accounts permitted	During lifetime of enterprise - Sri Lanka and Kenya
Tax exemption on share transfer to non-citizens	During lifetime of enterprise - Sri Lanka
Exemption from income tax on capital gains arising form the transfer of shares	During lifetime of enterprise - Sri Lanka and Kenya
Tax Relief for investment in purchase of ordinary shares as deduction from purchaser's assessable income subject to established limits.	During lifetime of enterprise - Sri Lanka
Exemption from dividend tax on dividends paid to resident shareholders out of exempt profits	During tax holiday + one year - Sri Lanka
Work permits for technical, managerial and training staff	During lifetime of enterprise - Kenya and China
Repatriation of dividends by foreigners	During lifetime of enterprise - Kenya and China
Exemption from labour standards	Factories Act, Industrial Reg. Act - Kenya Job security standards - China Prohibition of unions and right to strike in electronic firms - Malaysia
High quality infrastructure in Zone	During lifetime of enterprise - Kenya and Republic of Korea At concessional rates - Mauritius Subsidised factory space - Malaysia
Customs inspection at zone rather than port	During lifetime of enterprise - Kenya
Income tax on royalties to non-residents	During tax holiday - Sri Lanka
Exemption from income tax on emoluments paid to foreign employees	During tax holiday - Sri Lanka and China

Sources: Greater Colombo Economic Commission (GCEC); Chen, Social cost benefit analysis of China's Shenzhen SEZ) 1983; Chinese publications and the Shenzen Statistical Bureau reports; Malaysia Investment Incentive Act 1968; G Sivalingam (1994); Embassy Port Louis (1989); Republic of Korea Foreign Capital Inducement Act, Won Sun Oh (1993). Published in Jauch and Keet (1996:7).

Shortcuts to Industrialisation?

Industrialisation and development

«In order to develop, you must industrialise» is a most popular theoretical orthodoxy. This positive view of industrialisation is excellently put by Kerr et al. (1962), who claims that industrialisation

> *«... tends under any political and economic system to raise materially the level of wages, to reduce the hours of work, and to raise living standards as measured by such conventional means as life expectancy, health and education»* (p. 29, in Kiely 1998:18).

Development is thus the result of a shift from primary production to secondary and tertiary occupations, where economies of scale can be fully exploited. The positive link between industrialisation and development[15] has been resolutely embraced by contemporary policy-makers to the extent that voices advocating other paths of development seem totally silent. The realisation that industrialisation is a «must» and *the* catch-word coincides with the neo-liberal gale (wind is too weak a word) sweeping over the economic policy surfaces of the contemporary world[16]. Consequently, there are few critical voices concerning the effects of promoting foreign direct investments «at all costs». In the cases of African countries, this is reflected in weak political opposition to the implementation of EPZ programmes[17]. This is in spite of historical evidence on the negative consequences of outward-oriented development strategies, which have resulted in heavy dependence on transnational corporations. Probably, African policy-makers, most of whom are well learned when it comes to negative historical experiences, perceive the effects of basing the economy on the export of *manufactured goods* as fundamentally different from basing it on the export of *raw-materials*? The historical justification for such a belief is of course the experiences of Western countries, which grew rich by exporting manufactured goods. More lately, the experience of the Asian «Tigers» (which at the moment are down with a hefty flu) has inspired many developing countries to repeat their success at export-oriented industrialisation. Export-orientation, and especially, the establishment of EPZs, has also been promoted by international agencies such as the World Bank and the UNIDO. According to the World Bank,

> *«The EPZ is the easiest system to arrange for economies at an early stage of economic development with limited administrative capacity. EPZs can be an appropriate way to attract investment»* (quoted by du Preez 1996[14]*).*

[15] According to Kiely (1998), it has been firmly established theoretically that «if one accepts that development is primarily about increasing productivity, output and incomes, then there is a close connection – indeed, a causal one – between industrialisation and development» (p. 20).

[16] The classical economic thought that neo-liberals build on does not claim that industrialisation is necessary for development; rather, countries develop by capitalising on their competitive advantages, whether found in agrarian, industrial or service production, and success is secured through competition.

[17] (Moore 1966) argues that industrialisation has always been «the work of a ruthless minority» (p. 506, in Kiely 1998, p. 17), and Kiely (1998) argues that it is important to examine the motives of those who promote industrialisation, whether their interests «may have been to make a profit or increase military strenght, rather than to improve the health or education of the people» (p. 18).

In theory, at the one end of the scale, EPZs may be protected «islands» in an otherwise open economy, at the other end a state may pursue heavy import-substitution and still maintain an EPZ policy[18]. The establishment of EPZs is therefore not to be *equated* with export orientation as an industrialisation strategy, although the governments' rationale for pursuing export orientation and for establishing EPZs are very similar; industrial development, export earnings and employment creation being the principal arguments. In both cases, an «industrial enclave» manufacturing primarily for export is created, and care is taken that the flow of goods from the zone is controlled. The influence of the zone on other segments of the domestic economy can be minimised.

Although in many cases, local investors producing for export markets are invited to invest in EPZs, the rationale for the pursuit of EPZ policies in poor countries is essentially one of attracting *foreign* investors, due to local capital shortages for investment purposes. Hence, the task of politicians is one of promoting their countries abroad, putting emphasis on their unique resources, the skills - and wage levels, stressing various investment incentives and inform about investment opportunities, – in short, sell the local to the global. But EPZs are often seen as a step on the road to export-oriented industrialisation,

> *«EPZ should be a prelude to and not a substitute for countrywide duty free import systems. The importance of the EPZ should diminish as the whole economy becomes successful in its outward oriented strategy»* (du Preez 1996[14]).

Emulating Successes

As Kiely (1998) underscores, it is important to differentiate between extensive and intensive industrialisation. The former depends on drawing new resources into industry, and may result in industrial growth but not necessarily industrial development. The latter depended on technological development, increasing skills and using resources more efficiently (Kilmister 1992:246). To get industrial development, industries pursuing technological changes and «up-market» strategies should be promoted. This strategy requires not only access to technology, but also a pool of skilled workers – the skill level required increasing «by the minute» in most industrialised countries.

According to the World Bank, the success of the EPZ programme in Mauritius is attributable to Mauritius' most valuable economic resource: its literate labour force. Educational levels were much higher than in other developing countries and the availability of semi-skilled cheap workers attracted both foreign and domestic investment into the EPZ programme (Rogerson 1993:191-2).

There were also other exceptional circumstances that contributed to Mauritius' EPZ success. Hong Kong investors were attracted to the active Chinese business community in Mauritius as their local partners. Hong Kong investors also saw production in Mauritius as a way to avoid quota restrictions on exports into desirable markets like the EU for their own garment and textile industries (Sherbourne 1993:5). Furthermore, Hong Kong investors saw Mauritius as a safe haven for their investments before the anticipated

[18] As noted by Gereffi (1990), states may simultaneously pursue inward- and outward-oriented approaches.

reintegration of the enclave into China. Such social/cultural ties, combined with the existence of a local business community, as well as a supportive macro-economic environment and political and social stability were the main factors in the attraction of Hong Kong investors to Mauritius. These and other special conditions of the Mauritian case probably make it unlikely that it can be easily replicated elsewhere.

Costs and Benefits

EPZ host countries need to undertake careful cost-benefit analyses to determine the real «profitability» of such programmes. There are two types of costs that need to be considered, namely:

- the direct costs of establishing EPZ infrastructures and the subsidised services provided, and
- the indirect costs in the form of foregone government revenue and national income as a result of tax exemptions, unfettered profit repatriation and other such provisions.

The direct costs of establishing an EPZ enclave can be substantial, and host countries have to compare the costs of creating jobs in an EPZ with the costs of creating jobs elsewhere in the country (Sherbourne 1993:5). Large amounts of capital are required for basic investments like the purchase of land for the EPZ site, and the preparation of the site including the building of roads, providing water and electricity, waste water disposal facilities, telecommunications facilities, buildings and warehouses (ILO and UNCTC 1988: 135-136).

Despite such investments in infrastructure, a very limited number of jobs might be created. The Kenyan government, for example, spent 40 billion Kenyan shilling on establishing EPZs but only 2000 new jobs have been created there by the mid-1990s. It has been argued that many more jobs could have been created if this money had been spent rather on job creation in the small scale manufacturing sector or other large job creation programmes in the broader economy (ZCTU et.al. 1994:33). The Bataan EPZ in the Philippines required infrastructural investments of 190 million US dollars and created only 28 000 jobs, which makes the cost per job about 7000 US dollars. The average wage per worker was less than 40 dollars per month and, if the investment costs of the EPZ enterprises are analysed against this figure, a ratio of about 20:1 emerges between the investment per job and the average annual wage. An ILO study recommended ratios between 3:1 and 5:1 as economically viable (ILO and UNCTC 1988:137).

Employment creation is the most common justification for the introduction of EPZ programmes. The estimates of global EPZ employment vary significantly, ranging from between 1 and 3.5 million (Nel 1994:101, ZCTU et.al. 1994:6; Johansson 1994:390) to 27 million. The UNCTAD estimated the total EPZ employment to account for about 3% of global manufacturing employment (Amavilah 1993:279).

These differing figures are a result of different EPZ definitions. Some calculations consider only fenced off EPZs, thus excluding EPUs in countries like Mauritius; while others include all forms of export processing zones according to the definition of the World Export Processing Zone Association (WEPZA). This covers «all government authorised areas such as free ports, free trade zones, custom free zones, industrial free zones or foreign trade zones or any other type of zone as the Council may from time to time decide to include» (Article 1 of WPEZA statutes).

The effects of EPZs on unemployment in the host countries vary significantly. Mauritius that introduced its EPU programme in 1970 managed to reduce the official level of unemployment from 23% in 1979 to 2% in the early 1990s. This was largely attributed to Mauritius' EPUs which had generated 88 000 new jobs by 1988 (Tjitendero 1992:8). EPUs reportedly accounted for roughly one third of total employment in Mauritius during the late 1980s (Rogerson 1993:184).

In most other EPZ countries, however, the employment effects were far less dramatic. In Mexico and Hong Kong and other Asian countries, EPZs accounted for less than 10% of total manufacturing employment in the mid 1980s (ILO and UNCTC 1988:21, Rogerson 1993:184). In most countries EPZs account for 1.5% or less of total employment (Rosier 1995:87). Overall, the employment effect of EPZs seems to have been smaller than commonly believed and as Boedecker, Hengari and Shiimi have pointed out: «…it is quite possible that a seemingly successful EPZ is in fact only a showcase heavily subsidised by the rest of the economy» (1995:4).

With both money and political prestige at stake, governments pursuing an EPZ policy probably reckon that the benefits will outweigh the cost of the effort. The terms of the investment resulting from the bargain between companies and states may decide the national gains. The bargaining power of the host country, however, varies. Jenkins (1987) has focused on the footloose character of many production plants in Third World countries, i.e. in many cases, it is possible to locate the production unit «anywhere». He claims that this footlooseness

> *«... severely weakens the bargaining power of states which base their development strategy on attracting foreign investments to exploit cheap labour»* (129).

It follows that when production is closely linked to a scarce (natural) resource, the host country has a better card.

Establishing net gain or loss of foreign direct investments is very difficult since some of the variables involved cannot easily be computed. To take an extreme example, how can the cost of deteriorating health of workers that work 10 hours a day in a polluted factory, 7 days a week, be deducted from the national economic gains of industrial growth and increase in employment? Costs and gains must be measured *at different levels* using yardsticks according to *type of value.*[19]

As regards the gains, governments pursuing an EPZ policy claim that the investments will result in industrial development, increased employment in manufacturing and services, backward linkages and transfer of technology to domestic producers and foreign exchange earnings. But local public investments and fiscal incentives are heavy stones to be put on the scale. Infrastructure, physical site development, buildings, management organisations and promotion of the policy abroad, weighs heavily, as may subsidies in the form of tax

[19] The earliest studies of EPZ focused on narrow cost – benefit analyses of the policies, whereas later studies have focused on broader issues.

exemptions, promotional costs and administration. The amount of local capital used depends on the extent to which foreign companies have access to domestic capital and credit for investment purposes. Especially in developing countries, both public and private local capital is scarce. Any investment of local funds should therefore be evaluated according to an assessment of its alternative use, which brings us to key issues of industrialisation strategy. Should scarce resources be used to «subsidise» foreign capital, or could these funds have been better spent promoting local industries? Again, it is difficult to measure the gains of foreign investments in manufacturing against, for instance, spread-out public subsidies and support to domestic small-scale industries.

EPZ Companies and Domestic Producers

Technology Transfer

An important argument for the proponents of an EPZ strategy is the potential technology transfer to local producers. Access to modern technology is considered a key to industrialisation and development:

> *«Modernization is essentially achieved through industrialisation, and that the latter process is largely a technologically driven one»* (Kiely 1998:26).

Generally, foreign producers have more advanced technology than domestic manufacturers in developing countries, and it is thought that during the industrialisation process initiated in the EPZ, this may spread locally through networks and linkages. The lack of evidence of such transfers is one of the most disappointing general finding from studies of EPZ globally. There is very limited technology transfer from EPZ companies to local firms. Successful technology transfer to local companies could create competition for EPZ firms and is therefore not in their own interest:

> *«EPZ companies tend to operate on narrowly defined competitive advantages that leave little room for broader considerations of the needs of the host economies. In such situations, decisions are dominated by the direct interests of the investors and not by the national development aspirations of the host countries»* (Jauch and Keet 1996:18).

The EPZ solution is often selected by companies pursuing *low production cost* strategy rather than technological up-gradation. The lack of technological sophistication in the zones is therefore not surprising. Flaherty (1985) even claims that as an adjustment to low skills and wages, more advanced

> *«automatic machines introduced in the 1950s in some types of footwear production have now been phased out in favour of simpler machines reminiscent of pre-war production methods»* (in Donaghu & Barff 1990:539).

This indicates a process of low labour-cost induced *technological retrogression* (Endresen 1995).

However, being «low-tech» investors should in many countries assure a better *appropriateness* of technology. When the gap between domestic and foreign technology is low, there is a higher potential for diffusion of technology to the domestic producers. When this does not happen, the explanation rarely can be found in technology as such, for instance patent protection or «industrial secrecy». Rather, we should look at characteristics of the host countries in question, and in the set-up of the regulation of the zones. There is reason to link the lack of technology transfer to a lack of forward and backward linkages to domestic industries.

Linkages

The high degree of imported content in EPZ goods is an indication that backward linkages with the host economy remain quite insignificant. Linkages between EPZ companies and local producers are mostly limited to the provision of packaging materials and simple engineering inputs (Kelleher 1992c). EPZ companies are free to choose inputs at the best price and quality available on the world market. Often firms in the host countries are not able to produce inputs at the required standards or at internationally competitive prices. In Sri Lanka, Indonesia and Malaysia for example, local batik industries were unable to sell their fabrics to EPZ textile firms. The ILO observed that in general EPZ firms tend to develop far fewer links with the host economy than conventional foreign companies which at least buy some of their inputs locally (ILO and UNCTC 1988:109-110).

In many EPZs there are a significant and growing involvement of local capital. Local firms are found in clothing, foreign in electrical appliances and electronics (Jenkins 1987:132). Due to a greater knowledge of local conditions, there should be a greater potential of local linkages where domestic capital invest in the EPZ.

Sites of Exploitation?

Same Sad Story

A conference on workers' rights, organised by the International Confederation of Free Trade Unions (ICFTU), held in Nairobi in April 1998, painted a beastly picture of the working conditions in the EPZs of the world. It was pointed out that trade unions are denied access to the zones, and that workers who challenge the power of the EPZ companies by trying to form unions face at best dismissal and at worst persecution; they may be threatened or even fired. Violation of rights was reported from several of the 25 African countries that have implemented EPZ programmes, among them Nigeria, Sudan, Swaziland, Djibouti and Cameroon (The Namibian, April 9, 1998).

The governments were harshly criticised for allowing these conditions to prevail; the leader of the Africa office of the ICFTU, Andrew Kailembo, claimed that there is an alliance between governments and transnational corporations, the latter pressuring governments to enforce legislation that favours them - at the expense of the workers: The EPZs are marketed as sources of cheap, mainly female labour. This negative picture of the working conditions in EPZs – and indeed in «world market factories» in general, – is wide-spread; several authors tell the same sad story (Dicken 1998, Jenkins 1987, Coffey 1994).

Wages

We have seen that low wages are used by developing countries as an important competitive advantage when attracting foreign direct investments, and briefly discussed the dilemma inherent in this strategy. Basing industrialisation on low skills in manufacturing gives limited possibilities of technological upgrading and thus industrial development. To attract technologically more advanced producers, skilled labour is needed, and the higher the skill, the greater pressure from workers and trade unions to increase wage levels. There is another interesting policy contradiction. The stated aims of governments pursuing an EPZ strategy, namely the creation of jobs that will translate into improved standards of living of the population, may be contrary to the need to be competitive, implying as low wages as possible. The importance of employment creation and workplaces offering reasonable wages for improved standards of living of the population is obvious. To get a job - any job - is the top priority of millions of unemployed. However, in most developing countries, the supply of labour is ample, resulting in a downward wage pressure. According to Coffey (1996), wage differences in export production are substantial:

> *«While an experienced worker in South Korea typically costs $US 3,6 per hour, the cost is only $US 2,90* ***per day*** *in Thailand»* (p. 56, emphasis in the original*).*

The wage level in the EPZs is generally said to be above that of the domestic labour market, at least in the initial phases.

Both wages and working conditions of female workers can be harsh. Describing the «world factories», Coffey (1996) concludes that

> *«The typical employee of a world market factory is a woman between the ages of 16 and 26 years. In general, (transnational companies) prefer women as they are more compliant than men in accepting working conditions that are significantly inferior in terms of security of employment, safety, shift work, wages and fringe benefits. In general, these women work between 20 per cent and 30 per cent more hours per year than their counterparts in the labour force of developed countries - as much as 50 per cent in some cases»* (54-5).

Whether located in developing or industrial countries, women working in «global factories» have bad working conditions. Fuentes & Ehernreich (1983) mention electronics industries in Silicon Valley, where Filipinas, Thais, Samoans, Mexicans and Vietnamese experience severe health problems.

When wage levels in the EPZs are discussed, the basis of comparison are sometimes the wages of those who work in similar industries domestically, or the unemployed. Seldom do those who claim that work in EPZ is «better than the alternative» compare EPZ workers to those who work in similar industries in industrial countries, for instance in the "mother company". If they did, they would have found that wages tend to be between 10 per cent and 20 per cent of those paid in core economies.

It is also worth noting that in spite of inferior working conditions, the productivity per worker tends to be *only slightly below* that of developed countries (Coffey 1996:54-5).

This *non-correspondence between the wage level and the productivity level* in manufacturing in developing countries (as opposed to the *correspondence* in developed) is at the core of the theory of «superexploitation» of labour bytransnational corporations, and the transfer of resources through the price mechanism from North to South. This view is held by, among others, Amin (1976), Frank (1981) and Fröbel, Heinrichs & Kreye (1980).

Working conditions

To represent a real improvement in people's lives, better wages are not enough. They must be accompanied by improved working conditions. Conditions in the EPZs have been compared to those of first-generation factory workers in the industrialised countries - over a hundred years ago. These workers had extremely low wages and very long working hours, 12-14 hours, 7 days a week (Dicken 1998:313). There is ample historical evidence that workers may pay a high price for increased earnings:

> *«Wage increases alone did not necessarily entail an improvement in the quality of life. In trades, such as coal mining, in which real wages advanced ... at the cost of longer hours and greater intensity of labour, so that the breadwinner was 'worn out' before the age of forty. In statistical terms, this reveals an upward curve. To the families concerned, it might feel like immiseration»* (Thompson 1963 in Kiely 1998:29).

In contemporary developing countries, workers are often forced to accept very poor working conditions:

> *«Competition between workers faced with the existence of a vast industrial reserve army enables capital to impose long hours, short holidays and high work rates in poor conditions. These factors contribute to high labour turnover as a result of the mental and physical exhaustion of the workers. Indeed this practice has been compared to that of shifting cultivation whereby farmers move on once the soil is exhausted»* (Jenkins 1987:131-2).

There is also evidence of a high turnover of labour in the EPZs,

> *«… the labour force is quickly worn out … complete labour force turnover every 1-2 years is not uncommon»* (Coffey 199:54-5).

Long working hours represent a health risk, but there are more direct health threats in factories with polluting production. In Lesotho, most workes employed at a Hong Kong EPZ company that produced gemstones, died from lung cancer which they contracted as a result of dust pollution (ILRIG 1996: 30).

Theobald (1996) reports from Thailand that there are severe health problems in the EPZ, where workers are exposed to solvent poison. The chance of improvements are limited; legislation is lenient, workers rights are ignored, and no trade unions are allowed. Due to a lack of other opportunities, the workers are very concerned to keep their jobs, and they do not complain. They are afraid that any action might jeopardise their jobs. Questioning could lead to their dismissal, «troublemakers» would lose their jobs. Robert (1983) reports that women in textile industries often work when they are sick, afraid to lose the job. Illnesses are frequent due to insufficient ventilation, they work in overcrowded rooms with inadequate safety, so the health hazard is severe. He advocates an international code of conduct to eliminate sweatshops. Examples such as these have inspired critics such as Burawoy (1985) to characterise EPZ as places where

> *«women workers were subjected to an autocratic despotism fostered by the state»* (149).

Some EPZ companies also practice outsourcing to «homeworkers», putting out some tasks to women that work in their own homes. Such workers have no protection in their working conditions, and Dicken (1998:314) claims that the companies thus can contravene government regulations. There is a pressure on young daughters to take such jobs, and no shortage of candidates. The «outwork» system is in fact a retrogression to working conditions that were common before the industrial revolution.

Bad working conditions exist in many production units in developing countries; what is provocative in the conditions described above is that they constitute a *state sanctioned* exploitation through official EPZ programmes.

Trade Unions and Labour Rights

According to Buraway (1985), the violation of labour rights in the zones should be understood as part of a process of governments' «undercutting of standards» for specific locations to become the most attractive sites for international capital. Localities are encouraged to compete for the location of economic activities. This race is especially fuelled by the neo-liberal states, in which governments are becoming increasingly «labour hostile» and, in the Western world, aim to dismantle the welfare state. Analysing the development of the 1990s, Peck (1997) concludes that we are living in a world characterised by *hegemonic despotism* (Buroway 1985), in which workers' rights are deteriorating. An indicator is that the responsibility of unemployment is placed on the unemployed him/herself, all in the name of a «more flexible labour market». Furthermore, during the post-war period, capital has become increasingly more mobile, whereas labour face mobility restrictions. This, among other factors, increases the propensity of capital to «play places against each other».

There is no uniform pattern of trade union and worker rights in EPZs. While EPZ workers are generally covered by national labour laws in some countries, labour laws are suspended - partly or totally - in others (see Table 2).

Table 2: Labour law application in EPZs

Country	*Labour Standards fully applied*	*Labour Standards partially applied*	*Labour Standards suspended*
Mauritius		*	
Kenya		*	
India			*
Bangladesh			*
Sri Lanka			*
Dominican Republic	*		
Haiti	*		
Jamaica	*		
Mexico	*		
Malaysia		*	
Philippines		*	
Mozambique	*		
Zimbabwe			*
Namibia		*	

Source: US Department of Labour 1989 – 1990, Jauch and Keet (1996).

An ICFTU survey on trade union rights in EPZs notes that only a minority of countries has enacted specific laws, which explicitly restrict trade union rights. This, however, does not take into consideration violations of trade union rights that result from the nature of EPZs. Monitoring and enforcing national legislation regarding working conditions in EPZs is difficult. The physical demarcation of EPZs, coupled with security guards and entry permit requirements into such areas, are major obstacles for trade unions in their efforts to reach and organise EPZ workers (ICFTU 1991:36). In the Dominican Republic, the Philippines and Sri Lanka trade unionists are not allowed to enter EPZs. South Korea restricted the right to form unions in their EPZs. Bangladesh suspended trade unions altogether in EPZs (Chinyangarara and Loewenson 1995:8).

Foreign investors are often hostile towards trade unions and express strong opposition to international labour standards. A case in point is Pakistan where, for example, strikes are forbidden. The Pakistan government has told the ILO that it is not in a position to correct major legal violations of trade union rights in that country's EPZ because the repressive law in question represents a precondition set by foreign companies for investment. Transnational companies also played a major role in maintaining abusive legislation in Malaysia. In countries such as the Dominican Republic and Sri Lanka EPZ companies made it clear that a «union free» environment is crucial for their continued investment (ICFTU 1991:36).

The ICFTU pointed out that:

> *«…the danger facing the free trade union movement is that EPZs became established as links in a global chain used by internationally mobile capital to set off a competitive downward spiral in the observance of international labour standards»* (1991:36).

The extreme competition for foreign investment between EPZ host countries, and their willingness to compromise on worker rights and working conditions poses a threat to the achievements of trade unions. Host governments are often not willing to monitor and enforce national labour legislation within EPZs for fear of frightening off the foreign investors.

The latest ICFTU annual survey of violations of trade union rights notes that in Africa:

> *«…the governments are still all too keen to attract foreign investors, and either exempt the zones from labour legislation, such as in Zimbabwe, or simply don't provide the human resources to enforce it»* (1999:10).

Regarding the Americas, the report notes that:

> *«The export processing zones remain a union black spot…..Inhuman working conditions, long hours and low pay still prevail, and the authorities do nothing to change that' (ibid: 54). Likewise in Asia,'…organising and bargaining rights are most limited in export processing zones (EPZs) »* (ibid: 102*).*

Such patterns indicate that EPZs are a potential threat to the achievements made by workers and their trade unions world-wide. Competition between developing countries for foreign investment not only puts pressure on the standards set within such zones but affects labour standards outside EPZs as well. According to Jenkins:

> *«In order to guarantee the conditions for profitable accumulation in the host country, measures to control or suppress workers' rights and trade union activity are often necessary. This may extend to a generalizarion of repression involving the installation of a military regime» (1987:132)*

The bargaining power of trade unions is undermined in the process and this is likely to contribute to a downward spiral of labour standards. This is why some analysts have argued that workers and their unions are the major losers in a development strategy based on EPZs (Lindeke 1992:13).

We have seen that EPZ policies have been heavily criticised. Dicken (1998) is particularly harsh in his description some developing countries' attempts at attracting foreign investments:

> *«The basic question is: to what extent do international differences in labour standards and regulations (such as the use of child labour, poor health and safety conditions, repression of labour unions and workers' rights) and in the environmental standards and regulations (such as industrial pollution, the unsafe use of toxic materials in production processes) distort the trading system and create unfair advantages? In both cases, the basic argument is that firms - as well as individual countries may be able to undercut their competitors by capitalising on cheap and exploited labour and lax environmental standards. Much of the focus of this concern is on the export processing zones which ... have proliferated throughout the developing world»* (p. 464).

In the next sections, Parts 2 and 3 of our study, we present an empirical investigation of Namibia's EPZ experience to date. We examined where Namibia confirms with or differs from the global pattern outlined in this section.

Part Two: Namibia's EPZ Experiences

Namibia in a Competitive World

In a recent study of the competitiveness of African countries, Southern Africa emerges as a region of high average competitiveness. Within the region, Namibia ranks very high; together with Mauritius and Botswana *above* South Africa (World Economic Forum 1998). The parameters included in the study were economic and social variables as well as physical infrastructure; openness, government, finance, infrastructure, labour and institutions. In addition, the study sought through interviews with informants in both the private and public sector to measure the business community's perception of their country's competitiveness. The report paints a rosy picture of Namibia's competitiveness, perhaps too rosy, according to Galloway (1998). In a thorough evaluation of the findings on Namibia, he points to a methodological weakness of the report, possibly resulting in «a substantial element of subjectivity». But he agrees with the assessment that *labour* is the «Achilles heel» of the country, mainly, but not only, due to low skill levels. A very negative perception of the labour environment was apparent:

> *«Despite positive school enrolment statistics and education spending, the quality of education, particularly tertiary training, was very negatively assessed. The inflexibility of the labour environment and interference by unions were rated amongst the worst in Africa»* (Galloway 1998).

Thus, Namibia scores well below average as regards labour – although it remains unclear what is meant by «inflexibility» and «interference». On the other hand, the country ranks well above the average as regards infrastructure, institutional and legal framework, government policies and the financial sector. The fiscal environment of the country (outside the EPZ) is, however, among the *least* competitive in Africa.

The report states that there exists an impressive «feel good factor» among Namibian business, which is promising when it comes to the attraction of investors. Compared to a survey among business people in 1991, Galloway (1998) finds the mood of the Namibian business sector to be much more positive now than during the transition process. However, he warns against becoming too content:

> *«This should not allow Namibia to become complacent in believing that the solid institutional and sound government foundations established since independence, and the infrastructural framework even before that, will be sufficient to sustain our keenly competitive position in the far more competitive environment of the approaching millennium. In fact the clear lead established by Namibia's modern constitution and pro-investment legislation and incentives in the early 1990s has been eroded by similar regimes in neighbouring countries»* (Galloway 1998).

In Galloway's opinion, Namibia's neighbours are gaining pace in the race for competitiveness and the Government should therefore continue to improve the investment climate. Galloway attributes the low inflow of Foreign Direct Investments into Namibia and the rest of Africa to the stigma and ignorance attached to the continent as a whole.

This view is not shared by everyone and several analysts have explained Africa's continued marginalisation as a result of the very process of globalisation to which most African countries now try to adjust. Although space does not allow us to debate this issue here, it needs to be pointed out that there is an increasing gap between Africa's development and the dynamics of global capitalism. In their analysis of Sub-Saharan Africa in the global economy, Saul and Leys concluded that:

> *«Without a change in World Bank/IMF policy on debt relief, without the end of dogmatic market liberalism as a condition for aid, without a clampdown on predatory outside forces, without protection of all sorts, Africa seems doomed to stay marginalised»* (1999:24)

International Obligations

Namibia is a member of the World Trade Organisation and benefits from the Generalised System of Preferences (GST) although the preferential access to the markets of the USA depends on the product in question (UNCTAD 1996). Favourable trade terms with the European Union, including duty-free access of some products, may also be negotiated since the country is a member of the Lomé Convention (UNCTAD 1997). There is a special treat for potential investors from countries which face the industrialised countries' protectionist policies in the form of limited quotas, since

> *«goods and services produced in Namibia's EPZ are internationally recognised as «made in Namibia» provided normal rules of origin[20] are met»* (WBEPZMCO 1998:2).

This may attract investors from the NIC countries in particular.

Within the Southern African region, Namibia is an active member of the Southern African Development Community (SADC) and the Common Market of Eastern and Southern Africa (COMESA). More important than the latter, and continuously questioned by Namibians, is the membership in the Southern African Customs Union (SACU) and the Common Monetary Agreement (CMA)[21]. The SACU and CMA memberships are considered a «mixed blessing» by most commentators. On the one hand Namibia benefits from substantial grants, since over 30% of the state revenue comes from the customs pool; on the other, Namibia loses potential investors because of trade barriers[22]. Namibia's aspiration to become «a true fiscal haven» in the region is hampered by these commitments:

[20] The rules of origin state how great a part of the final product must be locally provided (Inama 1997).

[21] Current members of SACU are South Africa, Botswana, Lesotho, Swaziland and Namibia. These countries have through the Common Monetary Agreement (CMA) decided to keep its exchange control policy consistent with that of South Africa, and except for Botswana, they keep their currencies at parity with the South African Rand (Investment Centre 1996). Namibia has a bilateral free trade agreement with Zimbabwe.

[22] A report by a stock broker company, Simpson McKie & James Capel, states that Namibia has the most investor-friendly business environment in Southern Africa, but that investors are often delayed «by tedious administrative procedures, excessive regulations and the authorities' use of discretionary practices». It concludes that the CMA and SACU rules should be reformed (The Namibian August 11th 1997).

«…its involvement in monetary union with South Africa impedes any plans to turn the country's banking system into an African Switzerland or Luxembourg» (Republic of Namibia 1997:3).

These supranational commitments, especially the SADC aspirations of becoming a true free trade area, as well as the SACU rules, influence Namibia's industrialisation policy, particularly if in future, the country should embark upon a policy of active protection of local manufacturing industries.

The proximity to South Africa is sometimes considered unfavourable to Namibia, since the former country «attracts most of the aid and investment coming into the region» (Republic of Namibia 1997:1). The same publication, however, states that Namibia's geographical location opens up possibilities for exports to South Africa. At one level, the setting up of the EPZ in Namibia can be seen as an attempt to transcend the age-old dependence, since the EPZ companies are considered as operating *outside* the SACU. This means that EPZ companies which target the South African market have to pay tariffs. This may discourage South African EPZ investors with their own «home» market in mind, but will not trouble South African investors who target the export market. It indicates that investors from countries outside the Southern African region, namely American, European and Asian investors, were targeted by the EPZ initiators.

Industrialisation Strategy

EPZs and world trends

The upswing in the late 1980s of the number of states that proclaimed EPZs is contrary to what should be expected when considering the prevailing ideology of liberalisation, deregulation[23] and free trade. WTO advocates free and unimpeded trade and the removal of subsidies that distort markets and give «unfair» competitive advantages to countries. EPZs are by definition areas where investors receive special incentives which may well be regarded as a form of subsidies. However, the cry for free trade seems not to impede the formation of trading blocks; competing blocks now encompass all major trading partners of the world. The principle of free movement of goods seems to apply mainly to intra-block trade. In addition, the building of on non-tariff barriers to trade under the guise of «fairness» signals a reinforcement of the «new protectionism»[24]: world trade is free in ideology only. The attempts to «manage» trade using «strategic trade policies» have become so widespread that some observers characterise the contemporary international trade regime as an era of *neomercantilism*, prevailing since the late 1970s (Dicken 1998).

The international conditions are thus not very favourable for newcomers at a time when «the battle for rapid industrialisation» is fought. The African newcomers to the EPZ «family» are outside the most important trading blocks, and the increased popularity of EPZ experiments on the continent may well be seen as desperate responses to lure some

[23] The concept of deregulation denotes «the lifting or abolishing of government regulations on a range of activities in order to allow markets to work more freely» (Cerny 1991, p. 173 in Dicken 1998, p. 116).
[24] The so-called «new protectionism» of the 1970s denotes the quota system, the voluntary export restraints (VER) and the orderly marketing agreements (OMA) (Jenkins 1987).

foreign investment. EPZs can be seen as an attempt by host countries to create «low cost-high profit locations» for foreign capital invesments.

Namibia's attractions

The main attractions for foreign investors are thought to be the political stability of Namibia, its insignificant external debt, access to the world market and its good infrastructure. The latter is a very important localisation factor. Infrastructure in Namibia is excellent by African standards; in the developed central and coastal regions at least, communication systems are good, water and electricity supply is reliable, as are the financial services offered to the business community. Namibia has the second largest stock exchange in Africa. Also, corruption is said to be a minor problem, and the crime rate is relatively low. Compared to other African countries, pleasant living conditions are mentioned as an advantage of Namibia. The investors value good medical services, education and recreation facilities for the families of the expatriates (Republic of Namibia 1995). However, the intensifying war in Angola and its spill-over into namibia are likely to have a negative effect on investors' confidence.

Foreign direct investments are thought to escalate with the recent completion of the Trans-Caprivi and Trans-Kalahari Highways, as well as with the improvement of Walvis Bay harbour and its airport, the Rooikop. The highways mentioned link the landlocked neighbouring countries of Southern Africa to an Atlantic harbour; the «Walvis Bay corridor» thus supplementing and challenging the Maputo corridor as regards access to Gauteng, South Africa's main industrial region (Namib times September 9th 1997). Walvis Bay is marketed as «Namibia's window to world trade», its harbour can handle bulk, containerised, petroleum, frozen and dry cargo, and there are plans to enlarge the capacity to service bigger vessels (WBEPZMCO 1998). A first estimate of the costs of the enlargement is about N$ 150 million (Investment Centre 1996), for which the country is searching foreign aid.

Riding many horses

The Namibian government tries to implement various strategies simultaneously in an attempt to broaden the country's manufacturing base and to address the burning problem of under- and unemployment which affects about 60% of the population. On the one hand, the government subscribes to the neo-liberal line of thought and states that:

> *«The Namibian economy is based on free enterprise and private initiative. The Namibian Government regards the private business sector as the engine of economic growth and has put in place policies and a legislative framework designed to stimulate private sector production. Multinational companies have been operating successfully in Namibia for many years. Foreign companies are free to repatriate capital, profits and dividends. (...) The Government of Namibia maintains prudent fiscal and monetary policies. As a result, Namibia enjoys one of the lowest levels of debt in the world, stable prices, and a healthy balance of payments position»* (Republic of Namibia 1995:1).

«Since Namibia has a small population and a limited domestic market, export-led growth will be the only viable strategy for sustainable economic development and massive job creation» (GRN 1997:17).

«Government will provide an enabling environment for the industrial sector. Government policies will be oriented towards creating and maintaining markets. Specific interventions will operate through markets by providing the appropriate incentives and information» (MTI 1999: 4-5).

«Free trade is important for the development of the industrial sector in a small economy like that of Namibia….trade liberalisation represents a unique opportunity…to benefit from improved access to larger markets» (MTI 1999:6).

The former director of the investment centre Steve Galloway considers energy intensive, mineral resource based projects the most promising for Namibia. He supports the initiatives to facilitate exports, both through Export Facilitating Mechanisms (EFMs), and the EPZ. They

«give Namibia the opportunity to fast-track industrial development through importation of capital, technology, skills and market access. What better way is there to become internationally competitive than by importing production capacity to produce competitively?» (Galloway 1996[25]).

On the other hand, the government identified the SME sector and the informal sector as key sectors of job creation. These sectors face various structural problems and are characterised by low value output. The government promises to provide assistance in various forms, including building of institutional capacity, provision of market places and transfer of technology (see GRN 1997: 39-40). In addition, the Ministry of Trade and Industry is considering temporary support for industries that have difficulties in acclimatising to globalisation – provided that they will be able to achieve sustainability in the long run (ibid).

The Ministry also tries to promote selected industrial sectors that have a comparative advantage in the export markets. These are identified as processed fish, horticulture, cotton, tobacco, meat products, metals, industrial minerals, hides and skins, leather, crafts and hand-woven carpets. The Ministry's intention is to give support towards sub-sectors with economic potential. In addition, the Ministry tries to promote linkages between the SME sector and large enterprises and also wants to study the possibility of establishing a «SME – EPZ linkages programme…in order to support domestic suppliers» (MTI 1999: 9-11).

There are obvious tensions and trade-offs between the various policy measures. Trade liberalisation and free market policies favour large transnational companies and may lead to the destruction of local industries as has happened in most African countries under the IMF/World Bank induced Structural Adjustment Programmes (SAPs) (Chossudovsky 1995, Goncalves 1996, Saunders 1996). SMEs tend to be one of the first casualties in the liberalisation process and there is no compelling reason to believe that Namibia will be an exception to this rule. Referring to the Zimbabwean experience, John Makamure has

[25] Steve Galloway, Namibia Business Journal, cited in Namib times no 4567, 19t[h] of March 1996.)

pointed out that SMEs will need a wide range of support if they want to retain any chance of surviving the present form of globalisation (The Zimbabwe Mirror, 17 – 23 December 1999). The Namibian government is thus likely to face difficulties in its attempt to pursue various strategies simultaneously. The rules of the WTO, for example, tend to reflect the interests of industrialised countries and their transnational companies. As a member of the WTO Namibia is bound by these rules and might find it increasingly difficult to reconcile them with programmes aimed at supporting and building the local SME sector and specific industrial sectors.

EPZ: high hopes

As part of its strategy to become internationally competitive and to create favourable investment conditions, the Namibian government introduced the EPZ Act in 1995[26]. Like most other EPZ host countries, the government hoped that EPZs would attract foreign investment to Namibia and boost the country's manufacturing capacity. It also expected the creation of 25 000 jobs in the EPZs between 1997 and 1999 (GRN 1997:ii). Namibia's EPZ Act of 1995 states the specific purpose of EPZs as follows:

1. To «attract, promote or increase the manufacture of export goods;
2. To create or increase industrial employment;
3. To create or expand export earnings;
4. To create or expand industrial investment, including foreign investment; and
5. To encourage technology transfer and the development of management and labour skills» (Ayoade 1997:13).

The goal is

> *«to convert the ensemble of its territory into a free trade zone and fiscal haven for Southern Africa»* (Republic of Namibia 1997:1),

and the country consequently offers very favourable conditions to foreign investors. The legislation regulating foreign investments (outside the EPZ) is the Foreign Investment Act of 1990. In addition, the Government has also created Special Incentives for Manufacturing Industries to promote manufacturing (Republic of Namibia 1996)[27]. Even more favourable are the conditions for the EPZ companies; Namibia aims at being «Africa's true tax haven» in future (ODC undated). Both foreign and local companies can apply for EPZ status, as long as they export all or almost all of its output, and preference will be given

[26] The EPZ programme started when the town Arandis near Swakopmund got the status as a special incentive zone in 1991 (Amavilah 1993).

[27] Neither the Foreign Investment Act nor the special incentives for manufacturing industries are applicable to the EPZ companies (Investment Centre 1996). The incentives to non-EPZ foreign investors that are granted a «Status Investment Certificate» are quite favourable, and can in given circumstances compete with those of the EPZ, especially when the investors target the SACU market. Incentives include tax exemptions for exporters of manufactured goods and deductions for training costs (Investment Centre 1997 p. 202-4).

> *«...primarily to manufacturers and processors of Namibian or imported raw materials which earn hard currency and employ Namibians. Certain non-manufacturing activities, such as warehousing, packaging and break-bulk operations, will also be considered for EPZ status»* (Investment Centre 1996:1).

Thus, the EPZ is not designed to attract manufacturing only, but «other high-value export-oriented businesses» (MTI 1995:4) as well. Most products must be exported but 30% can be sold on the local or SACU market (Bank of Namibia 1996, Interview with L. Haufiku). Both Namibian and foreign firms can apply for EPZ status. Local firms may separate their export activities into a new company, or relocate their production to an EPZ. Local participation (for instance joint ventures with foreign companies) is encouraged, but not a legal requirement. The Government, however,

> *«…retains the right to stipulate Namibian participation in especially the fishing and mining sectors. ... Government participation may be a precondition for the award of rights in natural resources»* (Investment Centre 1996:202).

Incentives and Administrative Set-up

Incentives

Namibia offers one of the most favourable EPZ regimes of the region. Normally, Namibian companies pay corporate income tax[28], general and additional sales duties as well as stamps and transfer duties. The EPZ companies do not pay any of these taxes and duties; only personal income tax on employees' income are paid, and there is a Non-Resident Shareholders' Tax of 10% when dividends are exported (Investment Centre 1996). Currency conversion is guaranteed, and financial transactions (the transfer of dividends, profits and dis-investment) may be undertaken by banks without the involvement of the Central Bank. The EPZ companies may not, however borrow money in the domestic money market. The EPZ incentives are:

- Corporate tax holiday
- Exemption from import duties on imported intermediate and capital goods
- Exemption from sales tax, stamp and transfer duties on goods and services required for EPZ activities
- Reduction in foreign exchange controls
- Guarantee of free repatriation of capital and profits
- Permission for EPZ investors to hold foreign currency accounts locally
- Access to streamlined regulatory service ('one stop shop')
- Refund of up to 75% of costs of pre-approved training of Namibian citizens
- No strike or lock-outs allowed in EPZs
- Provision of factory facilities for rent at economical rates

(Ayoade 1997:14, ODC brochure 1996, GRN 1999).

[28] Corporate income tax in Namibia is 35%, mining companies pay 25 to 55%, petroleum companies pay 42%, manufacturers and exporters of manufactured goods pay between 3,5 and 17,5%. Non-resident share-holders pay 10% tax on dividends (MTI 1995).

The reimbursement of a large part of the expenditures on personnell training by the Government is a particularly interesting incentive. These training incentives are very generous and are meant to compensate for low productivity during the start-up period. They cover

> *«75 % of all direct expenditures incurred on approved on-the-job training or training courses ... (The companies can claim back) 75% of the direct costs of formal courses given anywhere in the world provided the institutions are recognised by the Namibian Vocational Training Board*[29] *and the ODC»* (Republic of Namibia 1995:4, 7).

The reimbursement of training costs only applies to the training of Namibian citizens, and the companies must present training plans to be approved before training starts. In addition to the creation of workplaces, improving the skill level of the Namibian workforce is a major objective of the Government; especially among «the previously disadvantaged groups» who constitute the vast majority of the population that had their development opportunities severely damaged during apartheid. This may explain the generosity of this particular incentive. In practice, however, this incentive was never granted to EPZ investors because no budgetary provision was made and therefore 'the Government will never be able to give that money (interview with S. Aboobakar).

In the promotion of the EPZ, the Government stresses that the Namibian EPZ incentives such as tax exemptions are «of unlimited duration» (Republic of Namibia 1995), as opposed to some other EPZs which have a time limit on or a gradual reduction of the benefits with time.

Administrative set-up

The Ministry of Trade and Industry carries out the main supervisory and regulatory functions regarding the EPZ programme, while the Ministry of Finance is responsible for the implementation of the fiscal incentives and customs regulations. The Bank of Namibia provides regulations regarding offshore banking and the Ministry of Higher Education is consulted on matters concerning training in EPZs.

Within the Ministry of Trade and Industry (MTI), the Namibia Investment Centre, formed in 1990, is the national investment promotion agency, but potential investors in the EPZ contact a special body, the Offshore Development Company (Pty) Ltd (ODC). This is a private company with a minority share (15%) owned by the Namibian government. It is in charge of implementing the EPZ scheme on behalf of the Ministry of Trade and Industry. The ODC designs the EPZ programme and proposes its implementation to the Minister, and also serves as a mediator between the Government and private industry. It runs the EPZ secretariat, monitors the progress and markets the EPZ programme (Ayoade 1997:13, ODC 1997). The ODC occupies rent-free offices in the building of the Ministry of Trade and Industry, and has received a loan form government to cover its expenses (interview, S. Aboobakar). A Government fact sheet on EPZs promises that the ODC and EPZ Management Companies will provide EPZ enterprises

[29] The Government prioritises vocational training, and in addition to training of industrial skills in secondary education, a number of vocational training institutions have been built (The Namibian Investor 1997).

«...with hassle free "one-stop" services in the areas of work permits, factory shells, power and water supplies, trade queries and labour issues and accessing equity finance» (GRN 1996).

To avoid cumbersome bureaucratic procedures usually experienced in the granting of investment permits, an Advisory Committee has been established, which brings together the decision makers (the ODC, the EPZ Management Companies, the Ministry of Trade and Industry, the Ministry of Finance, the Bank of Namibia and the Ministry of Labour). The final decision as regards EPZ status lies with the three first mentioned ministries and the Central bank. The applicant must present

«…a sound project proposal, taking into account foreign exchange earnings and viability of export operations. New operations should not disadvantage existing industry unfairly and should make a positive contribution to Namibia's long-term economic growth» (The Namibian Investor 1997:14).

At the local level, EPZ Management Companies can be formed to develop and manage an EPZ. Such a company can be a Namibian or foreign body corporate that needs to receive permission to operate from the Minister of Trade and Industry. The Management Company provides a particular area with infrastructure and services required to host EPZ companies. The investors then rent or buy land and buildings from the Management Company (Ayoade 1997:14). The Management Company can also

«…provide the investor with a tailor made factory building, especially designed to suit you» (WBEPZMCO 1998:2).

Currently, only the Walvis Bay EPZ Management Company is operational while all other EPZ companies operate under the direct supervision of the ODC. The zone in Walvis Bay is managed by the Walvis Bay Export Processing Zone Management Company (WBEPZCO). The ODC and the WBEPZCO handle the application procedure on behalf of the MTI, which involves the «screening» of investors and the refusal or granting of an EPZ Certificate[30] (Republic of Namibia 1995). The ODC and the EPZ Management Companies thus serve as «one-stop» service centres for the applicants, since these bodies co-ordinate the application process.

In Walvis Bay, the Municipality is the majority shareholder of the Walvis Bay EPZ Management Company, while the Namibian government holds 9% of the shares. The Management Company hopes to attract financial institutions to join the company and inject additional capital needed to set up additional buildings. For example, the costs of the Libra factory were N$ 4 million, and the Management Company lacks the funds needed to set up additional buildings (interview, L. Haufiku). So far the Municipality of Walvis Bay has contributed N$ 10 740 000 to the EPZ programme. N$ 2 040 000 were utilised to purchase shares in the Management Company, N$ 5 200 000 were used to erect factory buildings. Serviced erven valued at N$ 3 500 000 were also contributed by the Municipality. These figures do not take into account the Municipality's contribution in terms of staff salaries and time for officials assisting the EPZ programme (J.A. Kruger, written communication). From the beginning, the Municipality of Walvis Bay has been

[30] The applicant must deposit N$ 2000 with the ODC or EPZMC, which will be refunded if the application is unsuccessful. Further details of application procedures can be found in Republic of Namibia (1995).

heavily involved in the EPZ Management Company and in the development of the Zone. Industrial land was sold to the Company at a highly subsidised price, the Municipality was paid by way of shares in the Company. The Municipality also has two seats on the Board of Directors, which are held by the Mayor and the Chairperson of the Management Committee ex officio. The Municipality reimburses up to 5 per cent of the profits made on sales of water and electricity to EPZ companies, and has paid the salary of the Chief Excecutive Officer for a fixed period. Furthermore, the Municipality grants «bridging capital» at a preferential interest rate (du Preez 1996, see Footnote [14]).

Almost all EPZ companies we interviewed were very satisfied with the services rendered by the ODC and the Walvis Bay Management Company. They were, however, far less pleased with the services rendered by Telecom and Nampost. Only half of the companies judged them as good while the others described the services as poor or «satisfactory under African conditions». Two of the EPZ companies raised the issue of work permits for foreign staff as a problem that they experienced. They were unhappy about the procedures followed and about the time taken by the immigration authorities.

Investments and Investors

Countries of Origin

In line with the world trends discussed in **Part One**, the EPZ Business Plan of the Ministry of Trade and Industry observes a diversification in the home countries of investors seeking information on the Namibian EPZ. Foreign Direct Investment from Japan, Hong Kong and the large multinational companies are now being joined by investors from Korea, Taiwan, Malaysia and Singapore:

> *«As operational costs in these locations escalate, many of the companies are forced to relocate their lower value-added lines. Companies operating from Mauritius and even South Africa are also considering relocation. The ODC should, therefore, try and target these countries»* (Ministry of Trade and Industry 1995:24).

The EPZ business plan states that, initially, Namibia's EPZs should target light industries such as textiles and garments, electronics, footwear and leather goods, sporting goods, pharmaceuticals, household goods, car assemblies or car parts. However, Namibia’s EPZ programme is neither targeting specific companies nor specific sectors and welcomes all kind of investors. In the words of the ODC’s Chief Executive Officer:

> *«When we are beggars we can’t be choosers»* (Interview with S. Aboobakar).

The Namibian EPZ companies that were operational in 1999 originate from China, Germany, Irak, South Africa and the United Kingdom. Some of them have their head offices in their home countries and operate subsidiaries in Namibia. Others are «independent» companies with their own supply networks.

Companies

Despite high expectations and reports of tremendous successes achieved by Namibia's EPZ programme, the impact on the ground seems to have been limited so far. The Offshore Development Company (ODC) claimed in 1998 that over 35 EPZ companies are

> *«…engaged in the manufacturing of various products such as motor vehicle parts, bathroom accessories, foam mattresses, electronic equipment, teddy bears and ostrich leather production. Over nine companies are engaged in the processing industry such as the processing and polishing of diamonds and other gemstones… while six companies are engaged in re-export warehousing activities. The skills and technology transfer created by the specialised field of manufacturing various products has created meaningful employment and training opportunities to Namibians»* (Nkuruh and Schimming-Chase 1998:30).

However, we found only nine EPZ companies in operation at the time of our field work in 1999. These companies are :

Johanna Haida Teddy Bears, Swakopmund
A subsidiary of 'Johanna Haida Teddybaeren' in Sonneberg, Germany which started as a family business and sells various toys, including teddy bears. The company does not produce teddy bears in Germany; its German office merely operates as a wholesaler that supplies retail stores. In Namibia, the company employs 14 workers who produce teddy bears exclusively for the export market.

Namibia Press and Tools, Walvis Bay
A subsidiary of Weser-Metall-Umformtechnik GmbH' in Hannover-Muenden, Germany. The parent company was established in 1953 while the Namibian subsidiary started operating in October 1996. The company is engaged in the pressing, shaping and stamping of metal sheets into pre-fabricated components for the German automobile industry, especially Volkswagen and Audi. The company has about 55 employees (about half of them are employed through Africa Labour Hire) and exports all its products to Germany. The company has expressed interest in the South African automotive market, but will have to withdraw their EPZ status to do so. Alternatively, they may put up a separate «non-EPZ" unit to be able to export to South Africa.

Libra, Walvis Bay
This is a British/South African private company owned by one shareholder. It was established in September 1996 and started production in August 1997. Libra has 50 employees and produces acrylic bathroom ware (bathtubs, shower trays etc.) for the European market. Libra has a sister company in South Africa (Libra South Africa) which produces the same goods.

Marine Ropes International, Walvis Bay
This company is a private company owned by Namibian and South African business people who also operate Marine Ropes Pty Ltd. In Walvis Bay which supplies the local market. The EPZ company started operating in September 1998 and produces synthetic ropes for the fisheries industry, polystyrene boxes for fish exports and plastic buckets for

the fishing industry. The company has 21 employees and supplies wholesalers of fishing equipment, mainly in the UK and Australia.

NamGem Diamond Polishing, Okahandja
NamGem is a subsidiary fully owned by Namdeb, which was established in 1995 as a joint venture between de Beers and the Namibian government. De Beer in turn has become independent of the Anglo-American Corporation since June 1998. NamGem was registered in October 1996 and production started in 1998. The company polishes diamonds for the jewellery market and has 51 employees at present. All diamonds are obtained and re-exported to the Central Selling Organisation (CSO) in London, UK.

Ostrich Production Namibia, Keetmanshoop
This is a private, fully Namibian owned company, registered in 1995, which started operating in 1997. The company produces ostrich meat, oil, leather and carcass meal. It plans to expand its product range in the long run to include ostrich roast, steak and sausages as well as ostrich leather belts and purses. OPN has about 150 employees and received EPZ status for its meat processing operations. The company's main markets for meat are Belgium, Italy, Russia and Switzerland while leather is mostly sold to Japan, South Korea and Mexico. Locally, OPN sells ostrich meat to hotels and lodges while carcass meal and ostrich oil is sold in the SADC region.

New Sun Household Namibia, Tsumeb
This is a subsidiary of Shanghai Foreign Service Inc. – a Chinese state company that also has a joint venture in South Africa, called 'New Sun Industry Pty. Ltd.'. The mother company was established in 1988 and is engaged in import and export business. It also supplies labour to countries like Mauritius, Singapore and Japan. The Namibian operations started in April 99 and consist of production of aluminium cooking ware for the African market. The joint venture company in South Africa produces the same goods. The total number of employees at the Tsumeb plant stands at 31.

Tax Free Warehouse, Oshikango
South African Furniture chains that sell «knock-on furniture» as well as drinks; electrical appliances and audio-visual equipment for the Angolan market own this warehouse. The items are displayed in a showroom and sold in US$ to the Angolan clients. The furniture on sale was produced in Italy, Brazil, Malaysia and China among other countries. The warehouse is situated in the Oshikango EPZ park and employs 11 people.

Goran Enterprises, Oshikango
This is a private company and a division of Surchi Associates Ltd, which is registered in London. The owners are former Irakians who now hold British passports. The parent company has associates in England and Dubai where it is also running a warehouse. Goran Enterprises started operating in Namibia in September 1998 and sells 'anything' from food, cigarettes to clothing for the Angolan market. The company operates from the EPZ park in Oshikango and obtains its products from all over the world. It employs 9 people.

In addition, **Transvehco** and the Chinese clothing company **Namibia King Lion Company** have recently started operating in Walvis Bay. The **Barden International** EPZ Company presently has only one employee in Oshikango who looks after some cars and parts destined for the Angolan market. The other companies listed by the ODC at the end of April 1999 were either not operational or had decided to drop their EPZ status (Charex, Global Manufacturers, Namtex, Oshikango Foam and Mattresses, see below).

At the end of 1999, the ODC listed 17 companies as operational. In addition to the companies mentioned above, these are Indigo Sky Gems, Namibia Fashion Knits, Double V Manufacturing, Borries Marking System and P Products in Windhoek, as well as Global Polymer Industries in Otjiwarongo. According to the ODC figures for 30 September 1999, these companies employ a total of only 44 people at present.

The **total investment** of the operational companies covered by our study is about N$ 130 million. This figure is similar to the one provided by the ODC regarding the actual investment on 30 September 1999. Ostrich Production Namibia (OPN) – which is a rather atypical EPZ company - accounts for about 70 million while the rest is shared among the remaining companies. It must be pointed out that OPN received EPZ status for meat processing only while hatching and other operations of OPN do not fall under the EPZ programme. Overall, the average investment of an EPZ company stands at about N$ 13 million. This figure drops to N$ 6,25 million if Ostrich Production Namibia is excluded.

The ODC projects investments of nearly N$ 250 million for the currently operational companies but the companies concerned did not confirm this figure. The ODC's projected investment figures seem unrealistically optimistic.

Closure of EPZ companies

Several EPZ companies have either dropped their EPZ status or ceased their operations completely after a few months only. According to the ODC, a total of 21 EPZ companies have withdrawn the EPZ status including NAMTEX and Global Manufacturers in Walvis Bay, Charex in Tsumeb and Oshikango Foam & Mattress in Oshikango. The reasons given by some of the companies and by the EPZ Management Company range form poor planning and lack of seriousness on the side of the investors to labour problems and problems with the conditions attached to local sales of EPZ companies. There is a widespread perception in Walvis Bay that Global Manufacturers closed down due to the militancy of workers and their trade unions. However, EPZ officials also indicated that this company had a poor business plan and actually targetted the South African market which was not possible under the EPZ scheme. Global Textiles' main motivation to come to Walvis Bay seems to have been an attempt to avoid the minimum wages in its home country (South Africa) which are more than double the wages the company paid during its brief stay in Walvis Bay.

Several former EPZ companies have indicted that the Southern African market (especially South Africa) is of importance to manufacturers in Namibia. As EPZ companies have to pay full SACU tariffs for their local and regional sales, several companies experienced the EPZ status as more a burden than a benefit. They subsequently decided to operate without that status to be able to sell to the SACU market.

Development Impact of the EPZ

Direct and indirect costs

It has been difficult to establish the exact amount invested by Namibia in the development of the EPZ programme. The Oshikango EPZ park alone was set up for N$ 20 million by the ODC and N$ 10,74 million were invested by the Walvis Bay municipality to develop the EPZ there (Interview with S. Aboobakar; JA Kruger, written communication). On the other hand, single EPZ companies like the ones in Keetmanshoop, Swakopmund and Tsumeb purchased or rented their premises without relying on infrastructure established with public funding.

In addition to the costs for setting up the EPZ infrastructure, the EPZ programme also entails costs like covering the running expenses of the ODC and EPZ Management Company (including the costs for staff, administration, promotional trips, promotional materials, business lunches and the production of promotional materials). Such costs will have to be considered when a cost-benefit analysis of Namibia's EPZ programme is undertaken.

In addition to direct costs of establishing an EPZ, host countries like Namibia have hidden running costs for EPZs as a result of the economic distortions created by the very generous EPZ incentives. There is the risk that EPZs may attract companies that are not competitive without such incentives. EPZ companies enjoy privileges not available to local companies and may rely on such subsidies for their survival. This might result in a continued skewed allocation of resources to companies which are basically not economically viable - at the expense of the development of local companies which are not awarded such preferential treatment (Proctor and Markman 1995:13).

Unlike local companies, the EPZ firms are exempted from paying taxes, which means loss of revenue for the host government. Usually only income tax from EPZ workers returns as direct income for the state. However, ***only 10% of the EPZ workers earned enough to fall into a taxable income group***. The national economy loses out even more through the repatriation of profits and foreign exchange earnings back to the EPZ companies' home base. The ODC justifies such losses as a sacrifice that has to be made as the only way to attract investors to Namibia (Interview with S. Aboobakar).

The indirect costs incurred by Namibia so far seem to be limited to the foregone revenue in the form of corporate tax (35% for non-EPZ companies) and the foregone customs duties for imported machinery and input materials. However, the provision of buildings with amenities at Oshikango and Walvis Bay at «economical rates» can be considered as an indirect subsidy for EPZ companies.

Figure 3 : Elements of a Cost Analysis of an EPZ Programme

Costs	***N$***
Development of EPZ Infrastructure	30,74 million
Subsidised land for EPZ companies	
Subsidised services to EPZ companies	
Staff and administrative costs at ODC and EPZ management companies	
Government loan to the ODC	
Municipal staff seconded to the EPZ programme	
Promotional trips	
Promotional materials	
Foregone government revenue	
Economic distortions due to special incentives for EPZ companies	

Employment creation

The total employment of the currently operational EPZ companies in Namibia stands at only about 400 of which 150 are employed by Ostrich Production Namibia alone. However, not all OPN employees are employed in meat processing that takes place under EPZ status. In other words, the real number of EPZ workers is even lower than 400. Even if we count all employees of OPN as EPZ workers, the total number of EPZ workers in Namibia is significantly lower than the figures quoted in the press and those previously given by the ODC. In its 1997 annual report, for example, the ODC stated that:

> *«…by the time all enterprises with EPZ status at the end of 1997 are operational, they will have created nearly 3 000 new direct jobs and thousands more in indirect employment opportunities»* (1998:32).

In a submission to the Labour Advisory Council in May 1999, the ODC indicated 495 existing EPZ jobs but even this figure constitutes only a small fraction of the 25 000 EPZ jobs that the Namibian government expected to create between 1997 and 1999.

Namibian citizens hold most EPZ jobs although about 20 technicians and managers are foreign nationals (British, Chinese, Israeli, German and South African). Some companies indicated that they tried to recruit qualified local staff for positions such as toolmakers and training instructors but were unable to find such staff in Namibia. The vast majority of Namibian employees at EPZ companies are unskilled or semi-skilled workers.

It is often claimed that EPZ companies create indirect jobs in the broader economy. The ODC points out that it set up the EPZ park in Oshikango which kick-started development in the area, including shops, restaurants, warehouses and lodges (Interview with S. Aboobakar). However, there is virtually no manufacturing taking place in Oshikango, the only exception being the Namiba Foam Mattresses plant which is no longer an EPZ company. All other economic activities are trade – related and are badly affected by the ongoing war in Angola. Business people are also questioning «why such an expensive business centre was constructed so close to a volatile neighbour». Although all 14 warehouses were booked by investors, only 5 are operational and one of them recently suspended activities (The Namibian, 30 September 1999).

Although it is difficult to quantify the number of indirect jobs created by the EPZ programme, it seems that very few employment opportunities were created through servicing of EPZ companies. Most EPZ companies either carry out their maintenance work «in-house» or require services only occasionally. The most common services used by EPZ companies are transport services because EPZ companies tend to import almost all their machines, raw and input materials and export their final products.

Skill transfer and training

Transfer of skills is another benefit often cited to justify the introduction of EPZs. However, most EPZ workers - not only in Namibia - are engaged in low skill activities, and knowledge transfer merely occurs through on the job training (Kelleher 1992d). Such training is of short duration and covers assembly type activities, while managerial and highly skilled employees tend to be imported (Nel 1994 quoted in Proctor and Markman 1995:29). As part of the incentive package, EPZ investors often require to be allowed to employ their own nationals in managerial and technical positions. This is partly in order to avoid the costs of training nationals of the host countries, but also because they plan to take their experienced and skilled employees with them when they move on to «greener pastures».

This dilemma was recognised by the Namibian government, which introduced an incentive of re-imbursing 75% of the costs for training Namibian citizens – provided that such training is pre-approved by the EPZ secretariat. The Walvis Bay EPZ Management company places strong emphasis on training and has contacted the Arandis vocational training school to discuss a training programme that will bring about a pool of skilled people. The Management Company believes that this will attract additional investors (Interview with L. Haufiku). In practice, however, such training did not occur as most companies introduced their own short-term training programmes. Some companies indicated that they were not aware of the conditions attached to the re-imbursement of training costs (Interview with U. Hartmann). Another company manager indicated that «training workers on the job is quicker and cheaper'. However, the ODC indicated that the main reason for EPZ companies not utilising the training grant is the simple fact that the government never made budgetary provisions for training. EPZ companies thus could never receive funds for training from government.

Several EPZ companies raised the issue of low labour productivity as an issue of concern. One EPZ manager indicated that

> *«...lack of skilled labour in Namibia is a limitation to the expansion of production»*

while another manager claimed that even after training, workers have to be motivated and encouraged because:

> *«Black people always think: My God, am I doing it right?»*

While this EPZ manager also claimed that Namibian workers are much slower than those in Asia and Germany, another EPZ managers indicated that productivity at the Namibian plant is 20% higher than in the comparative production units in Germany. He explained this in terms of

> *«…the mentality of the Owambo: If they are asked to produce more, they will strive to do so».*

The ODC attributes the low skills and efficiency levels of workers to a lack of training and expects EPZ companies to carry out training at their own expenses:

> *«EPZ companies have to increase their productivity by training their workers.»*

Instead of introducing minimum wages, the ODC suggests that companies should offer productivity bonuses to «better» workers (Interview with S. Aboobakar).

Almost all EPZ workers were regarded as unskilled at the time when the EPZ companies employed them - no matter if they had gone through a few years of schooling or had completed grade 12. Most received only some basic on-the-job-training, which lasted a few hours, a few days or a few weeks. One company claimed to train its workers on the job over several years to become fully skilled machine operators while 3 EPZ companies sent some of their employees on 1-4 weeks training courses to South Africa. Only one EPZ company has a pre-service training programme of 4 months, which is compulsory for all workers prior to their employment.

A basic feature of the training given to EPZ workers is that the skills acquired are usually not transferable. They are limited to the specific task carried out at the company. This was confirmed by the Walvis Bay EPZ Management Company which noted that the lack of general training coupled with the concentration on specific in-house training reduces flexibility at the workplace (Interview with D. Visser). The lack of transferable general skills coupled with a lack of certification renders employees vulnerable when they look for work elsewhere. They are likely to be treated as unskilled workers when they seek employment elsewhere.

Technology transfer and backward linkages

The high degree of imported content in EPZ goods is an indication that backward linkages with the host economy remain quite insignificant. Linkages between EPZ companies and local producers are mostly limited to the provision of packaging materials and simple engineering inputs (Kelleher 1992c). EPZ companies are free to choose inputs at the best price and quality available on the world market. It is therefore hardly surprising that few backward linkages have developed between EPZ companies and local firms in Namibia. Almost all EPZ companies import their machines, raw materials and input materials from outside Namibia, usually from Asia, Europe or the USA. Most companies indicated that these items were not available on the local market and/or that other companies in Namibia did not use the machines and materials of EPZ companies. Some companies import materials and machines from South Africa but most EPZ companies utilise the duty free import scheme to import these items at a lower price from overseas countries in Europe and Asia. Only one company indicated its intention to increase the purchase of input materials from South Africa. The purchase of uniforms, packaging and cleaning materials, the occasional servicing of machines and the utilisation of Namibian transport services are the only links between EPZ companies and the local economy.

The machinery used in EPZ companies is imported from Europe, the USA or Asia. It is usually not highly sophisticated but serves the specific production process at the EPZ company. Only one company indicated that its machines are «state of the art equipment» in line with the highest global standards. The others use basic machinery on which workers are trained for relatively short periods of time. One manager indicated that his plant uses obsolete machinery from Europe. Our study found no indication of a technology transfer from EPZ companies to other firms in the local economy and it seems unlikely that such a transfer will take place in future. This is hardly surprising given the experience with EPZs elsewhere. The former town clerk of Walvis Bay indicated in 1996 already that EPZs are

> *«...not a formula for bringing instant 'high tech'…a high tech zone must have a co-ordinated long term vision of plan involving education, training, research, investment promotion, funding and a strong state support as the Koreans, Taiwanese and Malaysians did.»*
>
> *«… technology transfer and the development of domestic linkages is a function of the level of technology involved in the production process, which in turn is a primary function of the skills available and the promotion efforts of the zone authority and the ability of local industry to supply the quality of inputs and services required by zone firms. Linkage possibilities are improved if local firms can call on technical institutes or universities for technical or other assistance. »*
>
> *«… In practice the amount of technology transferred or linkages generated in most zones is limited due to lack of skills among the zone workforce and the limited ability of domestic industry»* (Speech by Du Preez, Town Clerk's Forum, Windhoek November 8th 1996:4, 7).

The opinions of local businessmen vary. We have not systematically studied their views, but the following statements may exemplify the variation found when discussing the topic. One local businessman claimed that the EPZ incentive of unrestricted repatriation of profit

> *«...is wrong, it is just like the mining industry. The money earned should be reinvested here and spent here, that is better for Namibia.»*

Another local businessman explained why he wanted to invest in the EPZ. He he did not consider the tax exemption «unpatriotic» and said:

> *«I don't trust the Government. The money is better trusted with me. I can invest it better. »*

Although this businessman wanted to exploit a natural resource under the EPZ programme (which is not supposed to happen), he claimed to have «the right connections» to get a licence as an EPZ company.

The Walvis Bay business community seems less than enthusiastic about the EPZ programme and regards it with great scepticism because it has generated far less activity than anticipated. Walvis Bay businesses experienced little success regarding the establishment of linkages between the EPZ and local companies (Interview with S. Hrywniak).

Labour Relations

Early conflicts in Namibia

The question of labour rights in EPZs has been a source of early conflict in Namibia. Although Namibia's Social Security Act applies fully in EPZs, this is not the case with the Labour Act of 1992. Instead, the EPZ Act empowers the Minister of Trade and Industry, in consultation with the Minister of Labour and Human Resources Development to make regulations regarding basic conditions of employment, termination of employment and disciplinary actions, as well as health, safety and welfare conditions.

The exclusion of the Labour Act immediately led to heated debate in Namibia. The government argued that both local and foreign investment in the first five years of independence has been disappointing and that EPZs are the only solution to high unemployment. President Sam Nujoma described the exclusion of the Labour Act as necessary to allay investors' fear of possible industrial unrest. He promised that regulations on conditions of employment would be put in place to address the fears of workers. In the meantime, however, he declared «the non-application of Namibia's Code in the EPZ Regime is a delicate compromise which is necessary to achieve the larger goal of job creation» (The Namibian, 30 October 1995).

The National Union of Namibian Workers (NUNW) on the other hand opposed the exclusion of the Labour Act as a violation of both the ILO convention and Namibia's constitution. The union federation instructed its lawyers to challenge the constitutionality of the EPZ Act in court. However, during a high level meeting between the government, SWAPO and the NUNW, on 21 August 1995, a compromise was reached. It stipulates that the Labour Act will apply in the EPZs, but that strikes and lockouts would be outlawed for a period of five years (The Namibian, 24 March 1995 and 23 August 1995). Although this compromise was greeted with mixed responses from Namibian unionists, it was formally endorsed during a special meeting between the NUNW and its affiliates in September 1995.

The importance of sound labour relations was repeatedly recognised by the Namibian government. At the official opening of the WPEPZMCO, Prime Minister Hage Geingob appealed to workers:

> *«I would also like the workers to ensure that our EPZ becomes a success. After all, it is your reputation of hard work, and of willingness to learn that will prompt other companies to invest here. You, the workers, hold the key to the EPZ's success»* (Namib times November 12th 1996.)

Likewise, Namibia's Labour Commissioner Bro Mathew Shinguandja pointed to the need to keep «labour peace» to facilitate global business:

> *«The impending global business order dictates that adversarial relationships between labour and management be replaced by relationship based on shared and common objectives to increase the size of the cake for all stakeholders. Such an environment cannot be an accident. It is always the result of deliberate action by employer bodies and organised labour, with the state providing the legal framework for cordial labour-management relations.»* (Namib times July 4th 1997).

The Walvis Bay EPZ Management Company also believes that negotiations in good faith will always find a solution to labour problems (Interview with L. Haufiku). EPZ companies are expected to «stick to the rules» and engage in collective bargaining. The Management Company even tried to set up a mechanism for sectoral bargaining and adherence to guidelines regulating labour relations. While recognising that some EPZ companies try to exploit workers, the former CEO of the WBEPZMC also criticised trade unions who in his view sometimes still live in the past and think in terms of struggle (Interview with D. Visser).

Labour relations today

Labour relations continue to be one of the problem areas relating to EPZs. Some EPZ companies do not recognise trade unions and refuse to grant them access. Other EPZ companies experienced tensions and had to rely on the EPZ Management Company to mediate the conflict. However, there are significant differences between the individual EPZ companies. At some, labour relations seem to be fairly stable with few conflicts and occasional consultations with workers while at other EPZ companies labour relations are openly hostile.

A notable feature of EPZs is the almost complete absence of collective bargaining as envisaged by the Namibian Labour Act. Trade unions hardly managed to conclude collective agreements and commence negotiations over conditions of employment. The Metal and Allied Namibia Workers Union (MANWU) submitted proposed recognition agreements to two EPZ companies in Walvis Bay in 1997 and 1999, but did not receive any response to date (Interview with A. Kandjala). NamGEM is the only EPZ company that has so far signed a recognition agreement with a trade union, the Mineworkers Union of Namibia (MUN). Collective bargaining took place at that company during 1999 resulting in an increase of the minimum wage to N$ 700 per month and a 10% increase across the board (Substantive Wage Agreement between NamGem and MUN for 2000).

One company holds regular meetings with workers' representatives to discuss problems and possible improvements regarding some of the problems they experience at work. One company has established a factory committee as a forum for negotiations. Another company discusses wages with workers directly but is not interested to negotiate with trade unions. As the manager explained:

> *«Someone who joins a union does not have confidence in the employer. That is when the conflict starts.»*

Most Namibian EPZ companies are characterised by a widespread mistrust against trade unions. Unions are widely seen as instigators of workers who expect too much and table unrealistic demands. One EPZ manager openly told his workers that he would not tolerate trade unions because «they are not allowed in EPZs». Another manager praised the no-strike-clause of the EPZ Act, saying that «otherwise they [the unions] would eat us». One EPZ manager indicated that his company would only sign a recognition agreement with a union if it respects the no-strike clause of the EPZ Act. Another EPZ manager indicated the company's intention to stop the automatic deduction of union membership fees because such a system would give workers no chance to resign from the union. EPZ managers also complained about mistrust towards foreign investors, low labour productivity, high expectations and a high rate of absenteeism among their workforce – especially among women workers who have to look after children and extended families.

Trade unions on the other hand experience problems when trying to organise at EPZ companies. They feel that some companies are trying to undermine unions and that they are not respecting the Labour Act. This study found two of the EPZ companies openly violating the act. Trade unions also feel that EPZ companies are not negotiating in good faith because they know that EPZ workers cannot go on strike. Union organisers also reported that EPZ companies tend to threaten with dis-investment whenever workers table demands. In one instance, the manager of an EPZ company phoned the National Union of Namibian Workers (NUNW) and threatened that he would close his company if workers continued with demonstrations. Another EPZ manager indicated that workers must be careful not to out-market themselves as this would raise negative perceptions among investors.

The prevention of strikes in EPZs is seen by several EPZ companies as an important incentive. According to the Walvis Bay EPZ Mangement Company most investors first ask about the labour situation and are pleased with the no-strike-clause (Interview with L. Haufiku). EPZ companies indicated that they need this clause to meet deadlines with «just-in-time production» and that the clause is one of the major incentives for companies to enter the EPZ. However, this view is not unanimous as 3 EPZ companies indicated that the no-strike-provision is of no relevance to them. One manager said:

> *«Our workers will in any case go on strike if they want to».*

Another manager complained that despite the no-strike clause, workers find ways to express their discontent, for example in the form of a «go-slow».

In an attempt to diffuse the tense labour relations and to resolve problems before they turn into major conflicts, the Walvis Bay EPZ Management Company has created a consultative forum. One such forum was created to bring Walvis Bay companies and the unions together and one forum was created specifically for EPZs. However, the trade unions do no longer attend meetings of the forum because companies used to send «junior staff» without decision-making power (interviews with L. Haufiku and D. Visser). Labour relations and dialogue between companies and unions are still problematic and the EPZ Management Company tries to find a lasting solution.

EPZ Conditions of Service

Despite the view held by some authors (Kelleher 1992d) that EPZ wages and working conditions tend to be better than those in surrounding areas, the weight of the evidence suggests that working conditions in EPZs are far from being exemplary. In Namibia, there are huge differences in the salaries paid by EPZ companies. The worst case is a company where workers have a nine hours working day with only 30 minutes lunch break and a salary of only N$ 280 - 320 per month. Workers at this company are not even covered by social security and receive no benefits at all. In addition, money is deducted if they are on sick leave – even when they provide a doctor's certificate.

The best paying EPZ company pays N$ 1200 – N$ 2 000 per month for blue collar workers but most other EPZ companies pay wages of N$ 600 – 1 200 per month. EPZ companies offer very few additional benefits. Although five EPZ companies contribute to a pension scheme, only 2 offer a housing allowance and only ones offers a medical aid scheme. One EPZ company provides its employees with 5 kg of meat per month as an additional benefit.

Only about half of all the EPZ workers indicated that they are permanently employed while one of the Walvis Bay based EPZ companies employs about 50% of its workforce through Africa Labour Hire.

When questioned about poor working conditions at some EPZ companies, the ODC indicated that workers should be patient and that it was better to earn low salaries than to have no job at all. Referring the Mauritian experience, the ODC pointed out that wages were low at the beginning and increased over time as labour productivity increased. The Chief Executive Officer indicated that in his view Namibia needed to build an industrial culture first and that salaries must be determined by the market and not by minimum wage legislation (Interview with S. Aboobakar).

Part Three: Holding the Keys to Success? The EPZ Workers

The Sample

The study of workers in the EPZ companies concentrated on socio-economic and working conditions. Research assistants who spoke local languages collected this information, covering companies in all EPZ locations. Table 4 shows the number of workers interviewed according to location and EPZ company.

Table 4: Location of EPZ company and number of workers interviewed.

Absolute figures.

Walvis Bay	Libra	Namibian Press & Tools	Marine Ropes Int.	Namtex	Global Textiles
36	22	7	3	2	2
Oshikango	Tax Free Warehouse	Goran Enterprises	Oshikango Foam & Mattress	Barden Inter-national	
14	8	2	3	1	
Keetmanshoop	Ostrich production Namibia				
16	16				
Tsumeb	New Sun Household				
7	7				
Okahandja	Namgem				
7	7				
Swakop-mund	JohannaHaida Teddy Bears				
6	6				

Total number of EPZ workers: 86

The EPZ workers who were interviewed were selected randomly at their workplaces or were interviewed after hours in their homes.

Parallel to the EPZ study, two other studies were undertaken. One was an analysis of workers' socio-economic conditions in Walvis Bay. A total of 88 Kuisebmond workers were interviewed: 42 in the fishing industry, 2 workers in other companies and 44 unemployed workers. The workers were selected randomly and included inhabitants of houses, backyard shacks and single quarters.

The second study covered workers in the so-called labour hire companies. A total of 33 labour hire workers from several locations in Namibia were interviewed[31]. Table 5 shows the total sample of workers interviewed in all studies and distinguishes between permanent and casual workers.

The EPZ workers were compared to the other groups as regards differences in income, age, gender and education. The sample provides a basis for comparisons between EPZ workers and those employed in the fishing industry of Walvis Bay. The sample of unemployed workers allows a comparison of social and economic conditions with the most disadvantaged group of workers.

Table 5: The samples of the EPZ, Kuisebmond and Labour Hire studies.

Absolute figures.

Employment status	*Type of employer*					*Total*
	EPZ	*Fishing industry*	*Labour Hire*	*Various company.*	*Not empl.*	
Permanent	41	37	4	1	0	83
Casual	43	5	29	1	0	78
Unemployed	0	0	0	0	44	44
Total	84	42	33	2	44	205

The category «unemployed» covers workers who did not have a job the last month before they were interviewed. They were asked about their last job and this information is reflected in Table 6.

Table 6: Unemployed workers' last job.

Absolute figures.

EPZ	*Fishing industry*	*Various companies*	*Never "employed"*	*Total*
2	9	15	18	44

[31] The data presented in this study will be analysed in much greater detail. The comparison between EPZ workers and other workers such as fishing industry workers and labour hire workers will be published later this year.

Workers who claimed to have never been employed, indicated that they have been working «here and there» for some hours, and then been out of work for prolonged periods. They are included in the sample to get an indication how it is possible to survive under such difficult circumstances.

Some of the issues that were covered in our study proved to be «sensitive», and some workers did not want to answer the questions. Therefore, the number of workers that answered a particular question (N) sometimes differs from 86. [32]

Age and Education

Altogether 86 EPZ workers, 52 men and 34 women were interviewed. Most of them were relatively young, reflecting EPZ companies' preference for the young and strong. Only 2 workers were over 40 years old and women were generally younger than men (Table 7).

Table 7: Gender and age.

Percentages EPZ sample.

Gender	*Age*			*Total*
	below 25	*25 to 30*	*31 and over*	
Men	29	31	40	100 (52)
Women	41	44	15	100 (34)
Total	34	36	30	100 (86)

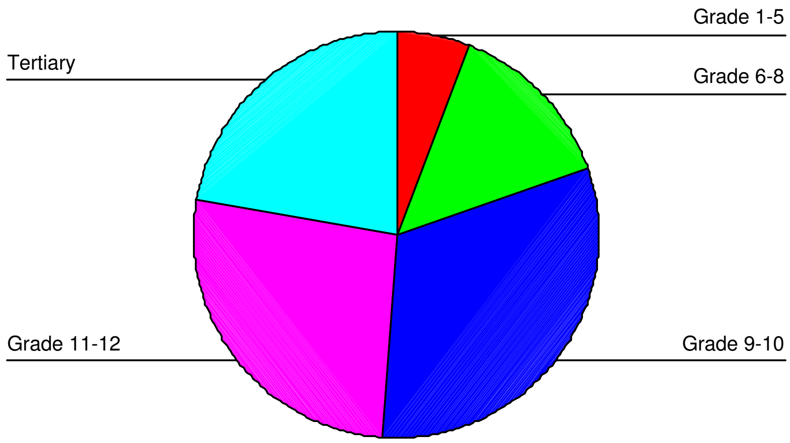
(N)

Whereas only 29 per cent of the men were below 25 years, 41 per cent of the women fell into this category. This reflects the general tendency of EPZ labour - a preference for young women as discussed in Part One.

The education level of the workers is relatively high: half of them had Grade 11 or higher (see pie chart below).

[32] The (N) may also be reduced if the issue is irrelevant for the particular worker in question, for instance, there is no point in asking how many children a worker has, who beforehand has stated that he has no family.

Education EPZ workers



Valid cases 86

The levels of education are relatively evenly distributed between men and women, but women have a higher representation amongst workers with higher education levels (Table 8). This is probably due to the fact that the women are younger, and the younger generation of Namibians has had far better education opportunities than the older generation.

Table 8: Gender and education of EPZ workers.

Percentages EPZ sample.

Gender	*Education*		*Total*
	Grade 1-10	*11 - Tertiary*	
Men	56	44	100 (52)
Women	44	56	100 (34)
Total	51	49	100 (86)

(N)

Compared to the workers in the fishing and other industries, the EPZ workers have a higher level of education (Table 9).

Table 9: Type of company and education.

Percentages total sample.

Type of company	*Education (grade)*			*Total*
	1 - 8	*9-12*	*Tertiary*	
EPZ co.	20	58	22	100 (86)
Fishing co.	16	82	2	100 (49)
Various co.	33	67	0	100 (12)
No employer	28	72	0	100 (18)
Total	22	66	12	100 (169)

(N) Note: Unemployed workers are included in the group where their last jobs were. Three workers did not answer the question about their education.

The companies that recruited the workers with the highest education level are NamGem in Okahandja and Ostrich Production Namibia in Keetmanshoop. NamGem has a thorough screening process and school results are very important to get admission to the company's training programme. The company has recruited very young workers.

Many are Migrants

As many as 64 per cent of the EPZ workers define themselves as non-permanent residents (migrants) in the town where they work. Most of the migrants stated that their hometown or village is located in the northern region (32 workers out of 55). Twelve come from the central region and 10 from the southern region. Only one migrant worker originates from the eastern region.

Apart from Walvis Bay, to where most of the migrants moved before 1997, most migrants came to EPZ towns in 1998 or 1999, indicating a pull of the newly established EPZ factories. Nearly all migrants stated that they left their hometown or village to get a job. Among the migrants, men are over-represented. Sixty-five (65) per cent of the migrants are men and only 35 per cent are women.

Table 10 shows that migrants tend to be somewhat older than workers who have settled permanently in the town where they work.

Table 10: Permanence of residence by age.

Percentages EPZ sample.

Permanence of residence	*Age*			*Total*
	under 25	*25-30*	*31 and over*	
Permanent resident	42	39	19	100 (31)
Migrant	29	35	36	100 (55)
Total	34	36	30	100 (86)

(N)

Dependants

Many migrants have a family to support in their hometown (Table 11). Only 7 of 55 workers did not have families in their hometown while many others had large families to support.

Table 11: Permanence of residence by household in hometown.

Percentages EPZ sample.

Permanence of residence	*Household in hometown*			*Total*
	None	*1 - 5*	*6 or more*	
Permanent resident	68	32	0	100 (31)
Migrant	13	62	26	101 (55)
Total	33	51	16	100 (86)

(N)

It is worth noting that the concepts of «permanent resident» and «migrant» is a question of self-definition and a measure of whether the worker thinks he/she will be staying on permanently in the town where he/she works right now. A worker who defines him/herself as a «permanent resident» and who may have set up a home with a spouse or friend, many nevertheless speak of his/her town of origin as «home», and may even have a spouse and children there. This is evident from the table. Ten workers stated that although they were permanently settled with a household in the town where they work, they also have a family to care for in their places of origin. The fact that some migrants may have «two core families» adds dependants to the burden of the breadwinner.

Almost all casual workers had a family to support in their home town (Table 12).

Table 12: Permanence of job by household in hometown.

Percentages EPZ sample.

Permanence of job	*Household in hometown*		*Total*
	Has	*Does not have*	
Permanent worker	44	56	100 (41)
Casual worker	93	7	100 (43)
Total	69	31	100 (84)

(N) Note: The two unemployed workers are excluded.

Permanent and Casual

There is a great difference regarding security of work between permanent and casual workers. Only half of the EPZ workers interviewed have permanent jobs, which means that a very high percentage of EPZ workers are casual workers. This is highly unexpected and may be explained by the fact that most EPZ jobs require low skills levels. EPZ companies therefore make only small investment in in-house training. Casual workers can more easily be «dragged in and out of production» according to the needs of the company. There are also less danger of being «stuck with» a particularly «militant» worker who might be perceived as a «troublemaker».

It is more difficult for migrant workers to get a permanent job. Only 29 per cent of the migrants have a permanent job. Table 13 shows that the difference between migrants and permanent residents is significant, and clearly demonstrates that the migrants get the worst deal – nearly all of the casual EPZ workers are migrants. These results may also indicate that it is easier for workers with a permanent job to settle down and become a permanent resident.

Table 13: Permanence of residence and of job.

Percentages EPZ sample.

Permanence of residence	*Permanence of job*			*Total*
	Permanent	*Casual*	*Unemployed*	
Permanent resident	94	3	3	100 (31)
Migrant	22	76	2	101 (55)
Total	48	50	3	101 (86)

(N) Note: The two workers that were unemployed had previously worked in the EPZ companies Namtex and in Global Textiles that have closed down. They were interviewed about their experiences during their period of employment.

There are interesting differences between the localities where the EPZ factories are located. In Keetmanshoop and Okahandja, most workers define themselves as permanent residents and probably originate locally, whereas all workers in Swakopmund and Oshikango are migrants. In Walvis Bay we expected most of the workers to be permanent residents – but two thirds were migrants. The publicity around the Walvis Bay EPZ has attracted hundreds – if not thousands – of workers. It seems that the migrants are the preferred labour in the factories.

The workers' age does not explain whether he/she is able to get a permanent job; neither is there a significant difference between men and women as regards permanence of job (Table 14).

Table 14: Gender and permanence of job.

Percentages EPZ sample.

Gender	*Permanence of job*			*Total*
	Permanent	*Casual*	*Unemployed*	
Men	42	58	0	100 (52)
Women	56	38	6	100 (34)
Total	48	50	2	100 (86)

(N)

Income

The EPZ workers belong to the group of lowly paid workers in Namibia's manufacturing industry. As will be shown, their earnings are below those of «the established manufacturing industries», but above the very marginal groups such as casual «labour hire» workers and, of course, the unemployed. The earnings of the EPZ workers are shown in Table 15.

Table 15: Wages of EPZ workers.

Statistics	*All EPZ workers*	*Unskilled and Semi-skilled*
Lowest wage per month	N$280	N$280
Highest wage per month	N$ 2660	N$1400
Average	N$815	N$735

When asked how their wages compare with those of workers elsewhere, most workers thought their wage was similar to other workers (46 per cent), although 37 per cent thought it was lower. Only 2 per cent thought their wages were the same while 14 per cent did not know. EPZ workers' earnings are shown in Table 16.

Table 16: EPZ workers' earnings.

EPZ companies	*Wage*				*Total*
	280-500	*501-1000*	*1001-1500*	*1501 and over*	
Absolute figures	*17*	*45*	*15*	*5*	*82*
Percentages	21	55	18	6	100

(N) Note: Workers working less than 8 hours are withdrawn from the sample.

Income and Working Hours

The above income figures are monthly earnings, and do not take into account whether the workers work an eight- or nine-hour day. In fact, most workers stated that they worked 9 hours per day (Table 17).

Table 17: Working hours in EPZ factories.
Percentage of EPZ sample.

Working hours	*Number of workers*
less than 8 hours	2
8 hours	32
9 hours	47
10 hours	3
Total	84

Longer working hours do not imply a higher income (Table 18) and there is no difference between the wages of those working 8 hours and those working 9 hours a day.

Table 18: Working hours by income.

Percentages EPZ sample.

Working hours	*Income*		*Total*
	280-1000	*over 1000*	
8 hours	72	28	100 (32)
9 hours	79	21	101 (47)
Total	76	24	101 (79)

(N) Note: Workers working less than 8 and more than 10 hours are withdrawn from the sample.

Many workers indicated that they were not paid extra for overtime (working hours beyond their normal hours). Table 19 below shows that in this respect there is a big difference between permanent and casual labour, which again shows why some companies prefer to recruit the latter.

Table 19: Permanence of job by extra payment for overtime.

Percentages EPZ sample.

Permanence of job	*Overtime payment*			*Total*
	YES	*NO*	*SOME TIMES*	
Permanent	82	18	0	100 (33)
Casual	38	59	3	101 (34)
Total	60	39	2	101 (67)

(N)

It seems to make no difference whether the workers know their rights or not, because those who know are also not likely to receive overtime payment. (Table 20). The workers' knowledge of the Labour Act is discussed further below.

This indicates a weak bargaining power of EPZ workers. Women are over-represented in the group that does not get extra pay for overtime. The hypothesis of a weak bargaining power is further strengthened by the finding that when workers applied for a job, over 90 per cent of them readily accepted the terms they were offered - without any discussion.

Table 20: Knowledge of Labour Act and extra payment for overtime.
Percentages EPZ sample.

Knowledge of Labour Act	*Overtime payment*		*Total*
	YES	*NO*	
Knows rights	61	18	100 (28)
Does not know rights	58	59	101 (40)
Total	60	39	101 (68)

(N)

The workers were in no doubt as to who decides the wage level, 89 per cent said it was «the company», the rest said it was fixed in negotiation between a workers' representative and the company, and only one mentioned unions in this context. However, some workers may mean that despite negotiations, the company has the final say.

Type of Company and Earnings

It is generally thought that the wages in newly established EPZ companies tend to be higher during the first years, to attract workers (ILO and UNCTC 1988). This is not the case in Namibia. EPZ workers are lowly paid, especially when compared to workers in the fishing industry (Table 21).

Table 21: Type of company and earnings.
Percentages total sample.

Company	*Wage*		*Total*
	N$ 150 – 1000	*N$ 1001 and above*	
EPZ co.	82	18	100 (78)
Fishing co.	42	59	101 (41)
Total	68	32	100 (119)

(N) Note: Withdrawn from the sample are skilled workers and workers employed in "Various co." as well as the unemployed. Chi sign. .001

The difference is significant. In the fishing companies, many workers earn more than N$ 1500 per month. Shorter working hours do not explain the difference. It is worth noting that the above comparison is based on workers in the fishing industry in Walvis Bay and EPZ workers in general (who work not only in Walvis Bay). It is reasonable to assume that the wage level of the big local labour market would influence the Walvis Bay based EPZ company. We would therefore expect a «levelling out» effect between wages of EPZ workers and those in the fishing industry. As Table 22 shows, this is not the case. The result equals that in the Table 21.

Table 22: Type of company and earnings (Walvis Bay only).

Percentages total sample.

Company	*Wage*		*Total*
	N$ 150 – 1000	*N$ 1001 and above*	
Walvis Bay EPZ co.	77	23	100 (35)
Fishing co.	42	59	101 (41)
Total	58	42	100 (76)

(N) Note: The following categories of workers are withdrawn from the total sample: Skilled workers, workers employed in "Various co." as well as the unemployed. Only workers in Walvis Bay are included.

Education and Wage

What is the point of getting an education when it does not influence what you earn? We guess that many workers ask themselves this question, while they encourage their sons and daughters to take school seriously, because it is seen as the key to a better future.

Table 23 shows disappointing results - whether you have a few years of schooling or a tertiary education, you may end up earning the same. This applies to EPZ workers as well as those in other sectors (compare Tables 23 and 24).

Table 23: Education and wage.

Percentages total sample.

Education	*Wage*		*Total*
	N$ 150 - 1000	*N$ 1001 and above*	
Grade 1 – 8	76	24	100 (37)
Grade 9 – 12	63	38	101 (112)
Tertiary	75	25	100 (20)
Total	67	33	100 (169)

(N) Note: 3 workers did not answer the question on their education.

Table 24: Education and wage.

Percentages EPZ sample.

Education	*Wage*		*Total*
	N$ 280 - 1000	*N$ 1001 and above*	
Grade 1 – 8	81	19	100 (16)
Grade 9 – 12	72	27	101 (47)
Tertiary	79	21	100 (19)
Total	76	24	100 (82)

(N) Note: Workers working less than 8 hours are withdrawn from the sample.

The justification of the companies is of course that it is the task a worker performs which decides the wage, not his/her educational background. If this argument holds true, there should be no difference between men and women doing similar jobs. But there is: Women generally earn less (Table 25).

Table 25: Gender and wage.

Percentages total sample.

Gender	*Wage*		*Total*
	N$ 150 - 1000	*N$ 1001 and above*	
Men	53	47	100 (96)
Women	78	22	100 (58)
Total	62	38	100 (154)

(N) Note: Unemployed workers are withdrawn from the sample.

The difference between the wages of men and women is significant. Within the EPZ, there is a similar tendency, although not so pronounced (Table 26). Sixty-nine per cent of men were found in the lowest wage category compared to 88 per cent of women.

Table 26: Gender and wage.

Percentages EPZ sample.

Gender	*Wage*		*Total*
	280-1000	*1001 and above*	
Men	69	31	100 (52)
Women	88	12	100 (34)
Total	77	23	100 (86)

(N)

When the wage categories are further split up, it appears that more women than men earn N$500 and less per month.

Earnings and Skills

The sample is divided into three categories of skills, namely unskilled, semiskilled and skilled workers. In the category «unskilled workers» we have included cleaners, manual workers, warehouse workers, deckhand/fish loaders, workers packing fish, security guards and domestic workers. In the category «semi-skilled» we have included machine operator, diamond polishers and sorters, quality controllers and «needle workers», and in the category «skilled worker» we include sales representative, clerk, supervisor, electrician, carpenter and driver.[33] The relationship between skill level and wage in the EPZ sample is shown in Table 27.

Table 27: Skill and wage.

Percentages EPZ sample.

Skill level	*Wage*				*Total*
	280-500	*501-1000*	*1001-1500*	*1501 and above*	
Unskilled	29	48	23	0	100 (31)
Semi-skilled	20	67	13	0	100 (46)
Skilled	0	22	22	56	100 (9)
Total	21	56	17	6	100 (86)

(N)

[33] *These categories apply to the total sample, not only the EPZ. N=153, since 18 unemployed workers are withdrawn from the sample. It could be argued that a driver rather belongs to the semiskilled category, but this has no impact on our argument since there are only two.*

It does not influence the wage much if an EPZ worker is semi-skilled or unskilled, - but it generally makes a positive difference if he/she is skilled. Many workers believed that the skills they obtained in their job were useful, but many had aspirations for much better jobs and claimed that it would not help them further. As many as 56 per cent thought so. There is no difference between men and women as regards skill level, although 6 of the 9 skilled workers were men.

Few workers had received other training than «on the job». Of the men, 37 per cent had received such training, of the women even fewer, only 27 per cent. This finding is contrary to the impression we got when talking to the EPZ managers.

Housing and Expenses

The workers were asked if they had experienced any improvement of their living conditions since Independence. As many as 49 per cent thought so, many young workers did not know, but 37 per cent felt there was no improvement. The continued migrant labour system and the housing problems partly explain this. In general, men judged the changes since Independence to be more positive than women did.

The quality of housing varies with permanence of residence, since people are more likely to invest in improved housing if they intend to live in a place permanently (Table 28).

Table 28: Permanence of residence and housing.

Percentages EPZ sample.

Permanence of residence	*Own house*	*Parents house*	*Rented room*	*Backyard or SQ**	*Total*
Permanent resident	39	48	7	7	101 (31)
Migrant	13	18	35	35	101 (55)
Total	22	29	24	24	99 (86)

(N) Note: Backyard shacks and SQ, Single Quarters denote very bad housing, however, in Walvis Bay preferred to those of the Compound.

An indication of the low buying power of EPZ workers is found when expenses for housing, food and travel is deduced. There cannot be much left to save «for a rainy day» (Table 29). For migrant workers, the picture is worse, since remittances to their families at home is an additional burden (Table 31). It is always more costly to have two homes.

Table 29: Permanence of residence and housing expenses.
Percentages EPZ sample.

Permanence of residence	*Housing expenses*				*Total*
	less than 150	*150-200*	*201-500*	*over 500*	
Permanent resident	48	16	26	10	100 (31)
Migrant	27	39	35	0	101 (52)
Total	35	30	31	7	99 (83)

(N)

Most workers spend between N$ 100 and 200 on food per month (Table 30). In this table, workers who live with their parents are excluded from the sample.

Table 30: Expenses food
Percentage of EPZ sample.

Expenses food N$	*Workers*
less than 100	12
100 - 200	44
201 - 300	29
301 - 500	3
over 500	13
Total	101

(N=59)

There is no difference between men and women as regards housing, food or travel expenses. But in general, men have larger families to support.

As we would expect, migrants spend much more on travel than permanent residents. Twenty per cent of the migrants spent more than N$ 200 per month. However, migrant workers very seldom can afford to go home. Fourty-three (43) per cent of the workers spent less than N$ 50 on travel and indicated that they walk to work to safe the taxi fares.

Table 31 shows the migrants' remittances to their home town. These were regular remittances which indicates that a considerable share of their salary is sent home. However, few migrants answered the question on remittances.

Table 31: Remittances.
Absolute number EPZ workers.

N$	*Workers*
less than 100	4
100 - 200	17
over 200	13
Total	34

Terms of Employment

In the early months of 1999, there was a serious dispute at one of the EPZ companies (which has closed down in the meantime). The dispute centred around the right of workers to have written contracts, stating the terms of employment. Our data shows that this issue was not limited to one company as several EPZ workers still are without written contracts (Table 32).

Table 32: Permanence of job by written contract.

Percentages EPZ sample.

Permanence of job	*Written contract*		*Total*
	YES	*NO*	
Permanent	88	12	100 (41)
Casual	59	42	101 (41)
Total	73	27	101 (82)

(N) Chi .003

The issuing of written contracts is clearly dependent on the company policy. The highest figure was 95 per cent of workers with written contracts in one company, while the lowest figure was 67 per cent.

It is disappointing to note that 45 per cent of the workers could not state explicitly the terms of their contract. Twenty-one per cent indicated that they were not allowed to show their contract to outsiders. The rest (34%) knew their terms in detail, explaining wages, working hours and benefits. The problem probably has its roots in the way the management did (or did not) explain the conditions of work (Table 33).

Table 33: Explanation of the terms.
Percentage of EPZ workers.

Who explained the contract	*Workers*
Nobody	52
Supervisor	5
Manager	11
Other	32
Total	100

(N=62)

There is thus a great need for better information on the terms before a contract is signed. Knowledge of the terms of their contracts is not correlated to union membership (Table 34).

Table 34: Union membership and knowledge of contract.
Percentages EPZ sample.

Union membership	*Knowledge of contract*		*Total*
	Knows contract	*Does not know contract*	
Union member	50	50	100 (30)
Non-member	63	37	100 (19)
Total	55	45	100 (49)

(N) Note that only 49 workers wanted to answer the question on knowledge of contract.

An unexpected finding was that most casual workers knew the content of their contract compared to only a few of the permanent workers.

It is interesting to note that most EPZ companies gave benefits above those required by law (Social Security). However, 17% of the EPZ workers did not get any benefits at all, which is illegal. Table 35 shows the benefits given.

Table 35: Benefits.
Percentage of EPZ workers.

Benefits	*Per cent of the workers*
None	17
Social Security	31
Social Security and Medical Aid	1
Social Security and Pension	21
Social Security, Medical Aid, Housing allowance and Pension	24
Social Security and meat	6
Total	100

(N=84)

It seems that additional benefits are given not as a result of workers' demands, but according to what the management finds appropriate. Unionised workers tend to have less benefits than those who do not belong to a trade union (Table 36). This is due to the absence of collective bargaining and unions without the «strike weapon». It also points to attempts by some EPZ companies to discourage workers from joining trade unions.

Table 36: Union membership by benefits.

Percentages EPZ sample.

Union membership	*Benefits*			*Total*
	No benefits	*Social security*	*Social security and more*	
Union member	19	33	42	100 (42)
Non-member	14	29	57	101 (42)
Total	17	31	52	101 (84)

(N) Note: Here the 6 workers that are waiting to become union members are included in the category «non-member».

Benefits vary according to company and are not linked to skills levels, although most of the workers who indicated that they had no benefits were unskilled. However, benefits do vary with gender (Table 37) as more men than women had the best benefits on offer.

Table 37: Gender by benefits.

Percentages EPZ sample.

Gender	*Benefits*			*Total*
	None	*Social security*	*Social security and more*	
Male	16	22	62	100 (50)
Female	18	44	38	100 (34)
Total	17	31	52	100 (82)

(N) Chi .067

Difficulties at work

Workers indicated that wages and benefits as well as health and safety concerns were their biggest problems (Table 38). This was confirmed when workers were asked to indicate what should be improved at work. A change in management attitude was another frequently indicated area of improvement.

Table 38: Biggest problem.
Percentages EPZ sample.

Problem	*Workers*
Wages	32
Health and safety	29
No problems	24
Management attitude	9
Benefits, other	7
Total	100

(N=76)

Although may languages are spoken at work, only 11 workers (out of 86) considered this a problem. The workers were generally not reluctant to take up problems at the workplace. They took up problems with the foreman/supervisor (51 per cent), fellow workers (13 per cent), the manager directly (21 per cent), or a trade union (8 per cent). However, some were afraid to make complaints and 34 per cent thought that they would risk their jobs. Women were somewhat less afraid than men - the most insecure were male casual workers.

Most of the workers (64 per cent) did not have serious health problems, but the rest complained about sore chest, respiratory problems, headaches and back-pains, which they linked to their work. One worker lost a hand, 7 workers cut their fingers and 4 reported minor injuries. Most workers feared long-term health risks related to their work. They mentioned exposure to chemicals as a cause of their anxiety in most cases, but they also feared eye damages, respiratory problems due to dust and catching TB at work.

Half of the workers were given protective equipment, but less than 50% of them actually used masks, goggles or boots. There is a great need for stricter control at the workplace to prevent health risks and injuries.

Union Issues

EPZ workers see wages as the most important issue to be addressed by trade unions. Rising wages are considered the key to better living conditions for workers and their families. Given the very low wages of most workers and the huge income gap in Namibia, this is hardly surprising. However, unions in EPZ companies generally seem impotent in their attempts to raise the wage rate which is partly due to the present exemptions from the Labour Act. There is no difference in wages between union members and non-members (Table 39), which may make unionisation in the EPZ a most difficult task for the unions - quite apart from the problems posed by some EPZ company managers' attitudes.

Table 39: Union membership and wage.
Percentages EPZ sample.

Union membership	*Wage*		*Total*
	280-1000	*1001-and above*	
Union member	76	24	100 (42)
Non-member	77	23	100 (44)
Total	77	23	100 (86)

(N)

About half of the EPZ workers are union members. Most of the union members are satisfied with the services rendered by their union. Most members had attended union meetings, indicating an active membership. Some workers had contacted the unions themselves instead of being visited by a union organiser. The unions that most EPZ workers had joined were the Metal and Allied Namibia Workers Union (MANWU), the Namibia Food and Allied Workers Union (NAFAU) and the Mineworkers Union of Namibia (MUN).

Both union members and non-members expressed opinions as to what should be the most important issue for the unions (Table 40). Wages were mentioned by nearly all of them, but support during disputes between workers and the company was nearly as important. There were no differences between men and women with regard to union issues.

Table 40: Most important union issue.
Percentage of EPZ sample.

Issue	*Workers*
Support when in trouble	49
Wages	15
Support, wages, benefits	35
Total	99

(N=82)

Disputes

Thirty-seven (37) of the 86 workers had experienced a dispute at their workplace. The most common types of disputes were protest meetings (14 workers), demonstrations (11 workers), go-slows (9 workers) and strikes (3 workers). The reasons for the disputes were wages and benefits such as housing allowances. There were also protests against what the workers perceived as racism or discrimination. As many women as men took part in the disputes. In a few cases the disputes ended in victory for the workers, in other cases the workers were threatened with dismissal. Three workers indicated that they were fired while some disputes remained unresolved.

We asked the workers what would be the long-term effect of the «no-strike» clause of the EPZ Act. The answers are summed up in Table 41.

Table 41: Effect of the «no-strike» clause.
Percentages EPZ sample.

Effect	*Workers*
Unions are not taken seriously	46
Workers are oppressed, rights undermined	26
Workers are scared	8
Cannot change the EPZ law	6
Don't know, need to discuss	15
Total	101

(N=63)

Rights

The Labour Act protects workers and sets minimum standards - but these rights may remain on paper unless workers know their rights. Disappointingly, 54 per cent of the workers did not know that the Labour Act protects their rights. Table 42 shows that there are interesting differences between permanent residents and migrant workers in this respect. Migrant workers had a significantly better knowledge of the Labour Act.

Table 42: Permanence of residence by knowledge of Labour Act.
Percentages EPZ sample.

Permanence of residence	*Knowledge of Labour Act*		*Total*
	YES	*NO*	
Permanent residents	39	61	100 (41)
Migrants	54	46	100 (43)
Total	46	54	100 (84)

(N)

There also is a gender difference when it comes to knowledge of the Labour Act (Table 43). Fewer women than men knew about the Act.

Table 43: Gender and knowledge of Labour Act.
Percentages EPZ sample.

Gender	*Knowledge of Labour Act*		*Total*
	YES	*NO*	
Male	54	46	100 (52)
Female	35	65	100 (34)
Total	47	54	100 (86)

(N) Chi .092

Knowledge about the Labour Act also varies with age. Sixty-two per cent in the age group «under 25» indicated that they had no knowledge of the Labour Act. About half of the workers that knew of the Act could state what kind of protection it gives. The workers were not convinced that their company knows the Act. Forty-eight per cent believed that the company probably did not know of the Act, 24 per cent thought it did, and 9 per cent thought it knew but ignored the Act. Nineteen (19) per cent indicated that they did not know.

Many workers had experienced «discrimination» at their workplace and racial discrimination was the dominant form (Table 44).

Table 44: Discrimination at EPZ companies.
Percentage of EPZ sample.

Type of discrimination	*Workers*
Racial	44
Ethnic, social, gender	16
No discrimination	40
Total	100

(N=63)

There are no gender differences regarding this issue. The incidents referred to as «racial discrimination» took place between («non-black») management and (black) workers. This indicates that racial discrimination is a serious issue at workplaces.

Affirmative Action

About half of the workers thought that all workers at their workplace had the same chance for advancement, irrespective of gender and ethnic group. However, the casual workers had more negative experiences and perceptions than the other workers did.

The knowledge of the concept of Affirmative Action is generally poor among EPZ workers. Sixty-eight per cent did not know what it means. There is a slight gender difference as more men than women knew of the concept. Few workers believed that their company had taken this issue seriously and only 10 workers mentioned that action had been taken to promote black workers. Only one worker mentioned the promotion of women.

The knowledge of Affirmative Action is positively correlated to education levels (Table 45), and to knowledge of workers' rights in general (Table 46).

Table 45: Education and knowledge of Affirmative Action.
Percentages EPZ sample.

Education level	*Knowledge of Affirmative Action*		*Total*
	YES	*NO*	
Grade 1 - 10	19	81	100 (43)
Grade 11 and above	46	54	100 (41)
Total	32	68	100 (84)

(N)

Table 46: Knowledge of Labour Act and knowledge of Affirmative Action.
Percentages EPZ sample.

Knowledge of Labour Act	*Knowledge of Affirmative Action*		*Total*
	YES	*NO*	
Knows	48	53	100 (40)
Does not know	18	82	100 (44)
Total	32	68	100 (88)

(N)

There is no correlation between knowledge of Affirmative Action and union membership (Table 47). This indicates that perhaps trade unions did not embark on sufficient education programmes around this issue.

Table 47: Union membership and knowledge of Affirmative Action.

Percentages EPZ sample.

Union membership	*Knowledge of Affirmative Action*		*Total*
	YES	*NO*	
Union member	33	67	100 (49)
Non-member	31	69	100 (35)
Total	32	68	100 (84)

(N)

Part Four: Conclusion

An EPZ strategy is essentially an attempt to use a country's competitive advantage coupled with special incentives to attract foreign investors. The incentives are used to out-compete other countries in the name of job creation and industrialisation. However, neither the jobs nor backward linkages created by Namibia's EPZ programme so far are convincing. Only a tiny fraction of the expected number of jobs and very few linkages have been created while considerable costs have been incurred. Measured against the stated objectives of creating 25 000 jobs in EPZs, of increasing the manufacture of export goods and expanding industrial development as well as encouraging technology and skills transfer, the EPZ programme has fallen far short of the government's expectations. However, the ODC continues to project «buoyant growth» based on the granting of EPZ status to about 75 companies that are expected to create 4 353 jobs. This, however, seems to be once again a highly optimistic and rather unrealistic projection.

Although we were not able to establish the exact costs of the EPZ programme, these cost are substantial and should be calculated by Government to determine the costs of each workplace created through the EPZ programme. The ODC has argued that this evaluation of the EPZ came too early and that it will take many years before the real costs and benefits of the EPZ programme can be evaluated. Although this view is understandable to some extent, there are fundamental problems with the EPZ strategy which make it unlikely that the Namibian EPZs will achieve what the government had hoped for.

Our study examined how the Namibian EPZ experiences so far confirm to the global rule – or differ from it. We hope that both proponents and critics of the strategy will welcome our findings as a contribution to the EPZ debate. We believe that transparency and informed debate will help Namibia to make the best choices possible regarding a suitable industrialisation strategy.

The **key findings** of our study are:

- Despite substantial investments, the Namibian EPZ programme has fallen far short of the Government's stated expectations.
- Only 9 companies were operational during 1999, creating about 400 jobs.
- Most of the EPZ jobs are low-skill while managerial staff and technicians tend to be expatriates.
- Training for EPZ workers usually consists of «on-the-job-training» without developing transferable skills.
- There are no indications of technology transfer and very few backward linkages between EPZ companies and local firms.

- Most EPZ workers define themselves as «migrants», non-permanent residents in their town of employment.

- Only about half of the EPZ workers are permanently employed.

- Labour relations are tense at most EPZ companies and only 1 company signed a recognition agreement (and subsequently entered into collective bargaining) with a trade union.

- EPZ workers experience low salaries, poor benefits and dangers to their health and safety as the major problems.

- Although EPZ workers have higher levels of education than workers in other industries do, they are poorly paid – lower than the «normal» wages in the local labour market. The average wage for semi-skilled and unskilled EPZ workers stands at N$ 735, - per month. The average wage increases to N$ 815, - per month if skilled workers are included.

- Women workers in the EPZs earn lower wages and receive fewer benefits than men.

- At 2 EPZ companies there are very serious concerns about health and safety conditions. Workers are exposed to chemical fumes, heat or cold coupled with a lack of adequate protective equipment and the absence of independent monitoring.

- Racial discrimination is the dominant form of discrimination experienced by EPZ workers.

- Non-union members receive more benefits than unionised EPZ workers do, which can be seen as an attempt to discourage workers from joining a trade union.

- The no-strike clause in the EPZ Act has weakened the bargaining position of trade unions but is welcome by most EPZ companies.

- Despite the trends outlined above, there are significant differences between the individual EPZ companies regarding working conditions. The spectrum ranges from crude exploitation to fair labour conditions.

The Cost of Selling «the Local to the Global»

Namibia's peaceful and democratic development will depend on the extend to which the disadvantaged and impoverished majority will experience improvements in their lives in the years to come. It is beyond doubt that historically, industrialisation has played a critical role in the creation of a middle class which is very small in Namibia at present. The upliftment of workers (who were also severely exploited in the early days of Western capitalism) was partly a result of a hundred years of trade union struggle. But partly, and often forgotten, it was also a result of the realisation that *workers' wages should not be considered as a cost only*. If wages are increased, they become a source of increased demand for both industrial goods and primary products, creating cumulative growth. This is an important causal factor behind the formation of wealthy, mass consumption societies. But this strategy is not compatible with a «cheap labour» EPZ strategy, where the continuation of the flow of foreign investments is dependent upon the continued reproduction of a large pool of poor, desperate job-seekers.

In Namibia, colonialism and oppression during the apartheid era have resulted in a very skewed income distribution, where a manufacturing worker's wage is but a fraction of those of the industrialised countries. It is, however, somewhat higher than in some of the Asian countries that are the competitors for foreign direct investment. This reduces Namibia's competitive advantage - and may well be the reason why the Government agreed to the no-strike clause in the EPZ Act. But unionisation and strikes are the only weapon that workers have in their struggle to improve their living and working conditions. It is this question of labour standards and labour relations in EPZs that seems destined to be a source of future conflicts. The labour movement as well as international organisations like the ILO have pointed to the need to safeguard fair labour practices as well as adherence to health and safety standards and to the provisions of the Namibian Labour Act. As the first five years of EPZs are coming to an end this year, the Namibian government will now have to make a choice between guaranteeing basic workers rights in all parts of the country or continuously trying to attract investors through weakened labour rights and the no-strike-clause.

Although the ODC seems to believe that the determination of labour standards should be left to the market (Interview with S. Aboobakar), the Namibian government has certainly a responsibility to safeguard basic labour rights and working conditions. It is also questionable whether an economic strategy based on low skills and low wages is appropriate under the present conditions. A recent study on international experiences with EPZs (ILO 1998) pointed out that it is often (wrongly) assumed that cheap and compliant workers and a trade union free environment are the major attractions for foreign investors. The ILO has pointed out that international competition and the evolution of global production chains led to two considerations that are even more important, namely human resources and market access. Skilled human resources are required to improve the speed and quality of production while access to large markets for example under preferential trade agreements is another major consideration when investment decisions are taken. Investors do not only consider low nominal wages but rather look at unit labour costs which takes productivity into account (ILO 1998: 11).

The Mauritian example which is regularly cited by the ODC as the model for Namibia, is of little relevance as the conditions on that island as well as the circumstances under which the programme was introduced, were fundamentally different to those found in Namibia today. These differences include a much higher educational level in Mauritius; the availability of semi-skilled cheap workers that attracted both foreign and domestic investment into the EPZ programme in the 1970s and 1980s; a local Chinese business community that attracted Hong Kong investors; and the opportunity to produce in Mauritius as a way to avoid quota restrictions on exports into desirable markets like the EU. Furthermore, Hong Kong investors saw Mauritius as a safe haven for their investments before the anticipated reintegration of the enclave into China.

Undoubtedly, Namibia is in dire need to bring about industrialisation and to create jobs. However, our study raises serious questions as to the suitability of EPZs to achieve this aim. Given Namibia's excellent infrastructure and the access to the South African and SADC market, it might be more efficient and cost effective to invest systematically in the development of Namibia's human resources not only as an additional incentive to attract investments but also as a measure to achieve sustainable development and greater self-reliance. Several companies identified the unavailability of skilled personnel as one of the key problems they experienced. Systematic training and skills development might also offer Namibia the opportunity to move away from the low skill – low wage (and weakened labour rights) strategy that underpins the EPZ programme. Such a strategy is unlikely to lead to sustainable economic development and should be replaced with more viable policies like the conscious and systematic development of transferable skills, coupled with targetted support for specific local industries and the SME sector (as mentioned in the MTI policy of 1999). This includes support for industrial projects aimed at processing local materials as undertaken for example by the EPZ companies NamGem and Ostrich Production Namibia (OPN). This is undoubtedly a key strategy to establish sustainable manufacturing industries in Namibia. Support for such endeavours makes economic sense but does not require an EPZ programme. Targetted support programmes to encourage the processing of raw materials in Namibia are likely to be more beneficial and less costly than the EPZ programme.

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