Export Processing Zones (EPZs) in Namibia: A Success Story?

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1. INTRODUCTION

Namibia introduced its EPZ programme in 1995 – five years after independence – when the Namibian government passed the highly controversial EPZ Act. There was an immediate outcry from the labour movement, particularly the National Union of Namibian Workers (NUNW) over the exclusion of the labour rights (see section 2) but the Namibian government insisted that the EPZ policy was essential to create a manufacturing base and employment in Namibia.

In 1999, the authors of this paper in co-operation with Indileni Kandele, Stalin Maharero and Clinton Swartbooi as field researchers, carried out an in-depth study of the Namibian EPZ programme for the Labour Resource and Research Institute (LaRRI). Managers at all operational EPZ companies, government officials as well as 84 EPZ workers were extensively interviewed to determine its success, failures and the broader implications of the EPZ programme for Namibia's socio-economic development. This paper draws heavily on the LaRRI research and aims to sketch the background and implementation of the policy, labour relations and the developmental impact of EPZs in Namibia.

What is an EPZ?

One clear definition of 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" (Proctor and Markman 1995: 7). Such EPZs are fenced off industrial enclaves, which are physically, socially and economically segregated from the rest of the country. Enclave EPZs were designed partly for political considerations and partly to allow easy control and to protect local industries (ILO 1998:10).

However, as countries experienced several problems with enclave zones, they started introducing Export Processing Units (EPUs) which are more common in countries such as Mauritius. EPUs are not separate industrial enclaves but single firms operating under EPZ status. In other words, EPZ status is given to an enterprise, which produces exclusively or predominantly for export, and EPZs are being integrated into the local economy (Proctor and Markman 1995:7; ILO 1998:10). This is the concept applied in Namibia where EPZ companies are found in different parts of the country, some in designated zones (Walvis Bay and Oshikango), and others as single production units.

Incentives

Investors are attracted into EPZs by a range of special incentives:

- generous tax 'holidays' or total tax exemptions,
- developed infrastructure such as roads, transport and telecommunications,
- various subsidies especially on services provision such as water and electricity,
- import and export duty exemptions and
- unrestricted profit repatriation rights (Sherbourne 1993:6; ICFTU 1983:4-5).

In addition, the other major attractions of EPZs to foreign investors include

- the availability of abundant cheap labour;
- "flexibility" regarding working conditions and workers rights;
- restrictions on trade union activities (Johansson 1994:388; Rosier 1995:75).

EPZs also present transnational corporations with the opportunity to use developing countries as bases from which to circumvent trade restrictions and quotas in desirable foreign markets - such as the EU and the USA - which they may 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 Lome Convention. Due to their own lack of manufacturing capacity many ACP countries cannot take advantage of preferential access. EPZ companies can then benefit from such market access.

The Namibian EPZ scheme offers the typical EPZ incentives such as:

- 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 and lock-outs allowed in EPZs
- Provision of factory facilities for rent at economical rates (See Ayoade 1997: 14, ODC brochure 1996, GRN 1999).

2. BACKGROUND

As part of its strategy to become internationally competitive and to create favourable investment conditions, the Namibian government introduced the EPZ Act in 1995. 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 (see 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 EPZ Business Plan of the Ministry of Trade and Industry notes that Namibia's EPZs should initially target light industries such as textiles and garments, electronics, footwear and leather goods, sporting goods, pharmaceuticals, household goods, car assemblies or car parts. It points out, further, that Foreign Direct Investment from Japan, Hong Kong and the large multinational companies are now being joined by investors from Korea, Taiwan, Malaysia and Singapore. The business plan suggests that Namibia's EPZ should target investors from those countries for 'lower value-added lines' of production. "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). In other words, Namibia's EPZs should offer transnational corporations from those countries cheaper sites for labour-intensive - low technology production.

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 Central Executive Officer: 'When we are beggars we can't be choosers' (Interview with S. Aboobakar).

3. Early Conflicts: EPZs and labour

The question of labour rights in EPZs has been a source of conflict since the passing of the EPZ Act. 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.

EPZ 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. There are, however, 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. 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). The diamond polishing company NamGem (a joint venture between the Namibian government and De Beers) is the only EPZ company that has so far signed a recognition agreement with a trade union, the Mineworkers Union of Namibia (MUN). This is the only EPZ company where collective bargaining takes place at present.

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 sign a recognition agreement with a union only if it respects the no-strike clause of the EPZ Act. One 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.

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. As one union organiser explained: 'EPZ companies are very powerful and get away with many things. They are protected by the EPZ policy and trade unions find it difficult to represent the workers fully. It is easy to resolve problems with non-EPZ companies because the channels of communication are clear. With EPZ companies the channels are complex and blocked' (Interview with A. Kandjala).

Our 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 Management Company most investors first ask about the labour situation and they 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'.

About a third of the workers admitted that they have been involved in disputes at their workplace. Very few had taken part in "illegal strikes", but some had joined demonstrations and protest meetings. "Go-slows" were unusual, but according to one manager, the popular way of protesting in his company. The predominant cause of the disputes was wages. Few of the disputes were resolved in favour of the workers, there were even incidents that workers were fired (or threatened) as a result of their protests. About half of the EPZ workers are members of a trade union, mostly the Metal and Allied Namibia Workers Union (MANWU), the Namibia Food and Allied Workers Union (NAFAU) or the Mineworkers Union of Namibia (MUN).

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 forum was held to bring Walvis Bay companies and the unions together and one was created specifically for EPZs. However, the trade unions do no longer attend meetings of the Forum because companies sent '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 still tries to find a lasting solution. The leadership of the EPZ Management Company believes that the way forward as regards labour relations and working conditions of the EPZ lies in improved contact between the parties, and expressed a positive attitude towards collective bargaining practices. This, as we have seen, is contrary to the attitude of most managers of EPZ companies.

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.

About half of the EPZ workers are permanently employed, and 70 per cent of the workers have written contracts. One of the Walvis Bay based EPZ companies employs about half of its staff as casual workers through Africa Labour Hire.

The main and most regularly experienced problems of Namibian EPZ workers are the following:

- Low salaries and poor benefits
- Poor relations with mangers and supervisors. Many EPZ workers complained about racist practices and colonial treatment, some even mentioned this as a bigger problem than low salary. Generally, the workers are not afraid to complain about working conditions to the supervisors and the management, but in some companies, the workers are afraid to raise problems for fear of loosing their jobs.
- In all EPZ companies, 65 per cent of the workers thought their job involved a health risk. At two companies there are very serious concerns about health and safety conditions. Workers are exposed to chemical fumes, heat or cold and complained about a lack of adequate protective equipment. They also pointed to a lack of

independent monitoring of health and safety conditions in EPZ companies.

When questioned about poor working conditions at some EPZ companies, the ODC indicated that workers should be patient and that it is better to earn low salaries than to have no job at all. This indicates that the seriousness of the health conditions are at best unknown to the ODC, or at worst, ignored by them. Referring the Mauritian experience, the ODC pointed out that wages were low at the beginning and increase over time as labour productivity increases. The Central Executive Officer indicated that in his view Namibia needs 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).

4. The Impact

Despite high expectations and reports of tremendous successes achieved by Namibia's EPZ programme, the impact on the ground seems to have been limited thus far. The Offshore Development Company (ODC), for example, 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 being operational at the time of our fieldwork (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 Chines 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** has 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 (e.g. Charex, Global Manufacturers, Namtex, Oshikango Foam and Mattresses).

Recent figures of the Offshore Development Company list 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. In January 2000, the Chinese clothing company '**Namibia King Lion Company**' opened a factory in Walvis Bay employing 30 workers (New Era 21 – 23 January 2000)

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. 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[1] market.

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

[1] The Southern African Customs Union (SACU) includes South Africa, Namibia, Botswana, Lesotho and Swaziland. Products manufactured outside SACU are subject to custom duties that have to be paid if such products are sold in one of the SACU countries. The SACU custom duties also apply to products manufactured in Namibia's EPZs.

this figure. The ODC's projected investment figures seem unrealistically optimistic.

Employment

Overall, the employment effect of EPZs globally 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). It is obvious that many projections regarding Namibia's EPZ have been over-optimistic, particularly the expectation that EPZs would create 25 000 new jobs (GRN 1997:ii).

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 – not all of them in meat processing that takes place under EPZ status. This number is significantly lower than the figures quoted in the press and those previously given by the Offshore Development Company (ODC). In its 1997 annual report, 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' (ODC 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 a tiny fraction of the 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 Namibia Foam Mattresses plant, which has dropped its EPZ status. 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).

It is difficult to quantify the number of indirect jobs created by the EPZ programme. The most common services used by EPZ companies are transport and communication services because EPZ companies tend to import almost all their machines, raw and input materials and export their final products. This affects both the private and the public sector, such as customs offices.

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. In Walvis Bay, the most visible direct employment effect is the staff of the Management Company. The establishment of the EPZ zone may trigger off the establishment of "labour hire" companies (labour brokers) in the town. When EPZ companies hire "labour hire" workers, this can be seen as indirect employment creation. However, it merely represents the externalisation of particular tasks in some companies, gaining "flexibility".

EPZ skills 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 packages, EPZ investors most 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 (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 reimbursement 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. Instead, EPZ companies are expected to carry out training at their own expenses: 'EPZ companies have to increase their productivity by training their workers' (Interview with S. Aboobakar).

Almost all EPZ workers were unskilled at the time when the EPZ companies employed them. 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 33 per cent of the 84 EPZ workers that we interviewed indicated that they had received some form of training.

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. The lack of transferable 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. The workers are aware of this: 55 per cent of them claimed that the skills they have obtained working for the EPZ company would not be particularly useful for their future.

EPZ 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 1992). 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 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. One company had installed used machinery, technology that was obsolete in the "home country". Only one company indicated its intention to increase the purchase of input materials from South Africa. 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 local business sector in Walvis Bay regards the EPZ programme with great scepticism because it has generated far less activity than anticipated. Walvis Bay businesses also experienced little success regarding the establishment of linkages between the EPZ and local companies (Interview with S. Hrywniak). The EPZ Management Company has tried to "link up" local industry to the EPZ, but this initiative has so far been disappointing. Managers of EPZ companies also complain about little interest from local business and indicated that “opportunity explorers” had not contacted them. 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.

5. Conclusion

The findings of our study indicate that Namibia’s 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. 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.

Despite the limited success of the EPZ programme, the ODC continues to project ‘buoyant growth’. It has awarded EPZ status to about 75 companies and expects investments of N$ 7,066 billion and the creation of 4 353 jobs. This, however, seems to be once again a highly optimistic and rather unrealistic projection.

The question of labour standards and labour relations in EPZs will remain 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 the no-strike-clause.

Although the ODC seems to believe that 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). An EPZ strategy that is built on low wages and weakened labour rights – as is the case in Namibia - is thus unlikely to lead to sustainable economic development.

The weakness of the EPZ concept – even on its own terms - has also been demonstrated by the high number of EPZ companies that closed down or decided to drop their EPZ status. Considering Namibia's small domestic market, most manufacturers will try to target the SACU market, especially South Africa. This is not possible under the EPZ scheme unless the company pays all duties applicable to producers outside the customs union.

Some broader implications

The introduction of EPZs in Namibia and other SADC countries have some broader negative implications for the process of regional integration in Southern Africa. EPZs are based on the belief that the only development strategy possible is to become internationally competitive and to attract foreign investment by offering ever-increasing concessions. In Southern Africa, EPZ are likely to lead to a race to the bottom as far as labour and environmental standards are concerned. In their desperation to attract investments and create jobs, the Namibian and other Southern African governments are likely to directly compete with each other and in the process further deregulate their economies. This will certainly prevent any meaningful economic integration that takes into consideration the highly uneven levels of development in the region. EPZs and other trade and other measures of trade and investment liberalisation expose the SADC countries individually to a highly competitive and hostile global economy whose current structure and rules offers few benefits to a country like Namibia.

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