AN ASSESSMENT OF THE IMPACTS OF EXPORT PROCESSING ZONES ON NAMIBIA'S SOCIO-ECONOMIC GROWTH

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ISMAEL ELISHI

STUDENT NO: 200609700

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Supervisor: Prof. Rehabeam Katengela Auala

Abstract

This study attempts to assess the impact of the Export Processing Zone (EPZ) programme in Namibia. Using data from the country's EPZ programme authorities, the central bank, relevant studies, and country reports, the study shows that although the programmes have facilitated employment generation and foreign exchange earnings from manufacturing and exports, such exports rely highly on the mining processing sector such as diamond cutting, polishing, as well as zinc refinery. The reliance on mining process, and the uncertainty regarding the continuation of such mining are important sources of vulnerability. This causes fluctuations in investments and also helps explain the low level of backward linkages. This is especially evident in the case of Ramatex. Several factors hamper larger investments, such as high labour unit costs, high electricity prices, lack of affordable business and industrial premises, lack of rough diamond are some of the factors affecting the production performance of EPZ enterprises in Namibia. However, Namibia's EPZ programs should to a greater extent target industries and services in which they have good prospects of developing a competitive advantage, regardless of trade preferences, which provide good opportunities for human capital and technology transfers, and which generate backward linkages. The study emphasizes on the need for the scheme to be reviewed, and be aligned to its main purpose. The main problem is that capital-intensive industries seem to have low rate of employment compared to labor-intensive industries. Quality infrastructure and supporting services also play a vital role in attracting investors. The study further looks in the overall overview of tax incentive and non-tax incentives aimed at attracting more investment to Namibia. The study in general evaluated the potential impacts of the EZP regime in Namibia, and concluded by giving recommendations which the relevant government ministries as well as institutions can consider.

Declaration

I, Ismael Elishi, declare hereby that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

……. Date: 19 March 2019

Ismael Elishi

Dedication

I dedicate my thesis work to God, my creator and my master who leads me through the valley of darkness with light of hope and support. A special feeling of gratitude to my loving mother whose words of love, encouragement and push for tenacity ring in my ears. It is also dedicated to my late grandmother, Kuku Hilma Nekulu Elifas, who taught me that even the largest task can be accomplished if it is done one step at a time. My late grandmother never left my side and she remains very special to me.

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LIST OF ABBREVIATIONS

AGOA	African Growth and Opportunity Act
BON	Bank of Namibia
BOP	Balance of Payment
COMESA	Common Market for Eastern and Southern Africa
EBA	Everything But Arms
EPU	Export Processing Units
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FTZ	Industrial Trade Zones
DPM	Dundee Precious Metals
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
HRD	Human Resource Development
HPP	Harambee Prosperity Plan
ICS	Investment Climate Statement
ILO	International Labour Office

IT	Information Technology
IMF	International Monetary Fund
IDZ	Industrial Development Zones
LaRRI	Labour Resource and Research Institute
LDC	Least Developing Countries
MFA	Multi Fiber Arrangements
MITSD	Ministry of Industrialization, Trade and Small & Medium Enterprises (SME) Development
MTI	Ministry of Trade and Industry
MLHRD	Ministry of Labour and Human Resource Development
NPC	National Planning Commision
NDP4	Namibian Development Plan Four
NDTC	Namibia Diamond Trading Company
NIC	Namibia Investment Center
N$	Namibian Dollar
NSA	Namibian Statistics Agency
NSSA	Namibia Social Security Act
ODC	Offshore Development Company
RN	Republic of Namibia

SACU	Southern African Customs Union
SADC	Southern African Development Community
SEZ	Special Economic Zone
SSA	Sub-Saharan Africa
SME	Small and Medium Enterprises
SZM	Skorpion Zinc Mine
UNDP	United Nations Development Programme
USA	United States of America
WB	World Bank
WBEPZ	Walvis Bay Export Processing Zone
WBEPZMC	Walvis Bay Export Processing Zone Management Company
WBZ	Walvis Bay Zone

CHAPTER ONE

1.1. Background of Export processing zones in Namibia

The Namibian Government recognises the crucial role of private domestic and foreign investment as a critical factor: The Government insists that a combination of domestic and foreign investment will result in the desired level of gross fixed investment necessary for the realisation of high levels of growth in the country's production and export sectors, thus, there was a need to transform the content and character of the country's economy through the adoption of laws that enable and support private investment and business activities (*Investor Guide*, 2014, p. 2)

The Namibian Export Processing Zone (EPZ) regime got off the ground effectively in 1996, after the proclamation of the Export Processing Zones Act (Act No. 9 of 1995) in 1995 and its amendment in 1996 (Act No. 6, of 1996). Since the inception of the EPZ regime in Namibia, the country has attracted a significant interest of both the local and international investment communities. This was because the EPZ regime has been regarded as a vehicle for the export led industrialisation of the Namibian economy. An EPZ enterprise may choose to become either an independent factory located anywhere in Namibia, or an enterprise within an industrial park or estate run by a management company. These parks are located in towns such as Walvis Bay, Oshikango and Katima Mulilo.

The main focus of the EPZ is on export-oriented manufacturing activities, excluding fish and meat processing. Extractive operations such as mining and fishing are not eligible. According to the Investors Guide (2007, p. 5) "All mining operations are taxable under the normal tax regime, however, mineral processing or beneficiation operations may be considered and granted EPZ status". In the case of Namibia, diamond cutting and polishing companies are

granted EPZ status, but mining companies that extracted these diamonds are not eligible for the EPZ status.

1.2. Statement of the Problem

"EPZs can play a dynamic role in Namibia's development, as they have a huge economic and employment potential" (*Investor Guide*, 2014, p. 4). These Zones will provide foreign exchange earnings, provide jobs to alleviate unemployment or under-employment problems in Namibia (assist in income creation) and attract foreign direct investment (FDI). However, the EPZ programme in Namibia has been inadequate compared with the resource base and potential need. In the case of Namibia, government have highlighted the poor job creation rate, limited technology transfer and knowledge sharing, insufficient foreign exchange through exports, as well as the poor backward linkages from the EPZ to Namibia's economy.

Gibbon, Jones and Thomsem (2008, p. 4) argue that "despite their popularity, the performance of some EPZs throughout the world has been marginal". For example, the World Bank (1992, p. 15) found that "the majority of zones throughout the world were performing below expectations". Developing countries have taken up the initiative of issuing good incentives to most companies with the zones, but the benefits thereof have been minimal. Some companies fail to adhere to the rules and regulations which comes with the incentives, resulting in chaotic labour conflicts to mention a few.

First, some companies enjoying EPZ status have not really contributed sufficiently to job creation, as in most cases they prefer cheaper labour, as well as employing the local people on a temporary basis. This approach is somehow criticized as it fails to address poverty alleviation in a long run, as workers are only employed for a short period. Secondly, "the

expected backward linkages with the domestic economy have not, in many cases, materialized. Thirdly, the anticipated technology transfers and spill overs also did not occur in many countries. Finally, the expense of the incentives used to create the EPZ, in terms of lost government revenues and infrastructure development may have reduced the overall welfare benefits to the host economy" (Gibbon, Jones & Thomsem 2008, pp. 29-33).

This thesis aims to answer if EPZ programmes can be expected to have a positive long-term effect on the socio economic growth of Namibia by exploring the potential benefits of EPZ programmes and the factors that determine and hamper investments within Namibia's EPZ programs.

1.3 Research Questions

The research questions this study answered were:

1. Did the EPZ concept provide a sustainable path to economic development, poverty alleviation, and job creation in Namibia?
2. Did the EPZ concept really have an impact on domestic entrepreneurship?
3. What has been the impact of EPZ on the socio-economic welfare of Namibia, i.e. Spill over as well as skills transfer?
4. Did EPZ play a major role on the diversification of Namibia, looking at the possible revenue gains/ losses by government?

1.4. Significance of the study

This paper aimed at assessing the impacts of export processing zones on the socio-economic growth of Namibia. In doing so, it assessed the EPZ in Namibia which could enhance the economic growth rate of this sector in the country with a view of achieving the goals of Vision 2030. The study also intended to identify short comings which constrain the impacts

of EPZ on the economy, and suggests possible options in this regard. According to the Labour Resource and Research Institution (LaRRI, 2000), "Namibia's EPZ act of 1996 does not seem to have undergone review, this is consistent with the observation that there is a lack of systematic, data-driven analysis of the impacts of EPZs". The findings of the study are also hoped to provide insight to other developing countries currently applying the EPZ concept, or those using EPZ for economic growth already. This study will be of good help to the next in line scholars intending to research on the topic.

1.5. Overview of the Study

The studies first chapter gives an introduction to the economic theory of export-led growth and the use of export zones, and also discussed the research question and significance of the study. The second chapter reviewed the literature regarding empirical findings of the effect of EPZs as well as the determinants of investments in both African and non-African countries. The literature review also looked at different reasons given or identified for the failure of many EPZ programs. The EPZ's effect on growth, exports, employment creation, skills transfer and spill-overs as well as ability to attract investors are explored. Chapter three emphasized on the methodology. The fourth chapter took the form of looking at the results and discussion, whose main objective is to answer the research questions by applying the context provided in the literature review. The thesis concludes with the conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1. A General view

Export Processing Zones (EPZs) as a policy tool for development and export-oriented growth which have proliferated over the last four decades, while already widely used in Asia and Latin America in the 1970s, over the last two decades they have become increasingly common in Africa and in transition Economies. EPZs provide a combination of financial incentives, streamlined business administration and trade liberalisation to a subset of the economy often defined as a specific geographical zone or targeting a specific sector.

EPZs is the most commonly used term among a variety of names and forms of a rather popular trade policy instrument used in the last few decades. Other names used include: Special Economic Zones (SEZs), such as those found in China, Free Trade Zones (FTZs), Industrial Development Zones (IDZs), in South Africa, and *maquiladoras* in Mexico. The terms are most often used interchangeably in the literature. This thesis mainly uses 'EPZ' as a common term for the zones. The International Labour Organization (ILO, 2003, p. 1) defines EPZs as "industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being (re-)exported again".

Baissac (2011, p. 23) defines SEZs as "geographical areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory". The zones are intended to be both more liberal and more effective and the

different rules include “investment conditions, international trade and customs, taxation and the regulatory environment”.

The main objective of EPZs is to attract investments that would otherwise not materialized and, as such, promote nontraditional exports, generate employment, and enhance the host country’s foreign exchange earnings. The long-term logic of EPZs is that foreign investments have the ability to create much-needed transfers of skills and technology, fostering local spin-offs, increasing knowledge of how to enter the global market, and improving access to international distribution channels.

Gibbon, Jones and Thomsem (2008, p. 13), stipulate that “the major reason for the proliferation in the use of this policy tool is the success of EPZs in some countries and the confluence of four trends: a) the increasing emphasis on export-oriented growth; b) the increasing emphasis on Foreign Direct Investment (FDI) oriented growth; c) the transfer of production of labour intensive industries from developed countries to developing countries; and d) the growing international division of labour and incidence of global production networks.”

2.2. EPZ Incentives

2.2.1. Incentives

Firms established within the zones are most often given tax exemptions, called ‘tax holidays’, which are a reduction of corporate income taxes for a period of time (Rolfe, Woodword & Kagira, 2004). EPZ firms are further commonly allowed unlimited duty-free import of raw and intermediate inputs and capital goods for production, and unrestricted repatriation of profits. Infrastructure, such as transport, electricity, and water, is generally

well developed relative to the rest of the country, and subsidised by the government (Madani, 1999). Service provisioning may also be subsidised, and bureaucracy simplified. Investors are typically given the benefit of dealing with only one office in setting up operations (ILO, 1998). Some countries also restrict union activities within the zones and offer EPZ firms greater flexibility regarding working conditions and workers' rights to make the zones more attractive for investors (Jauch, Keet & Pretorius, 1996). The incentives works as a driving force in attracting companies to the zones, hence the government makes sure that this incentives are favorable. In the promotion of the EPZ, "the Namibian government stresses that it's EPZ incentives such as tax exemptions are of unlimited duration" (Republic of Namibia, 1995). Meaning they are applicable for as long as the company is still operating in Namibia, as opposed to some other EPZs which have time limit on or a gradual reduction of the benefits with time.

Poor working conditions and marginal wages are two of the main critiques against the use of zones as a development tool. The traditional EPZ model mainly limits activities to light manufacturing, and allows for developing countries to take advantage of their low-cost and low-skilled labour by attracting export-oriented enterprises to the zones (Kaplinsky, 1993). Traditionally the zones have also been kept separated from the domestic economy by geography or jurisdiction. There has however been a slow shift from the traditional EPZ model approach to a range of different EPZs offering a greater variety of incentives and economic activities, such as "agriculture, manufacturing, construction, communication, trade, catering, housing, public utilities, and other services as finance and tourism" (Stein, 2012, p. 325).

The zones are often now also less isolated from the domestic economy, and may also produce for the domestic market. Zones are furthermore increasingly developed by the private sector. Some countries do however give EPZ incentives to single firms that mainly produce exports. These firms are called 'Export Processing Units' (EPUs), or 'single factory units', and are in general not required to locate in a specific area (World Bank, 1992). This EPUs are mainly targeted to boost the export of goods for a specific country. Developing countries may identify the need to increase its currency reserves by encouraging more export, which simultaneously increase the foreign exchange earnings of that specific county.

2.3. Static and Dynamic effects

2.3.1. Static effects

2.3.1.1. Foreign exchange earnings, foreign direct investment and exports

Madani (1999) argue that, the most frequently cited benefits of EPZs is the increase in foreign exchange earnings through FDI and exports. It is argued that foreign exchange earnings linked with EPZs may ease some of the constraints that low income countries such as Namibia face, allowing them to source inputs and other import needs for the whole economy. While there are some EPZs where domestic investors have been more dominant such as Mauritius and India, some of EPZs focus on attracting FDI and have been very successful in some cases. An increase in exports may have a significant impact on foreign exchange earnings.

Foreign exchange earnings are an important aim of many of the zone programmes, and are received through wage payments to the workers, purchases of local intermediate goods, tax payments, and the net profits that go to local shareholders (Madani, 1999). The ILO (1998, p.

37) however argues that EPZs generate little foreign exchange earnings, as zone investors tend to buy “few local goods and services and the incentives normally provide for full repatriation of profits”. According to Jayanthakumaran (2003), cost-benefit analyses of zones in South Korea, Malaysia, Sri Lanka, China, Indonesia, and the Philippines illustrate that heavy dependence on foreign investors is unlikely to maximize the welfare of a country’s citizens, he therefore supports a balance between domestic and foreign investors. Chinguno (2009) further argues that the effect of the current global recession shows that developmental strategies based on exports may be unsustainable, and production destined to the domestic market may be more sustainable in the long term. Another important objective when establishing EPZ is to increase diversity in exports in order to achieve higher socio-economic growth and reduced vulnerability to global changes.

According to Lakshman (2017), increasing FDI through the EPZ regime creates a great opportunity for the host countries to increase its exchange earnings. Most of these countries inject sufficient amount of money through its capital projects of starting up business in the host country. Critics arise as well if the FDI companies enjoying the EPZ status send most of their profits back to their country of origin. It is more advisable for companies in the EPZs to re-invest their earning in the local economy, to ensure that more jobs are created in order to reduce poverty and contribute to the socio-economic growth of the host country. EPZs programmes can also be used as economic mechanism to reduce risks through diversified exports as stated above. A diversified export market allows the country to avoid economic failure caused by the economic downfall of other countries where they export, e.g. If country A’s market is not doing well, at least they can still trade and export to country B or country C. A good EPZ regime allows the country an opportunity of trading with different countries

with business cultures, giving them a chance to learn different skills and strategic plans which they can take and use in their own country.

According to Engman, Onodera and Pinali (2007, p. 27) "EPZ exports may already constitute up to 8.3 percent of global exports of manufactured goods in countries with EPZ programmes. The effects can be larger in smaller economies with limited production capacity"**.** Export diversification is another potential advantage of EPZs. Gibbon, Jones and Thomsem (2008) studied the evolution of two diversification indexes for the period 1991-2001 for selected African countries. The analysis focused on measuring the extent to which EPZ-induced industrial manufacturing resulted in a diversification of exports for some countries.

2.3.1.2. Employment generation

One of the main objectives in many EPZs is employment generation, which in turn can have a positive effect in the alleviation of poverty, and contribute to the socio economic growth. EPZs, for the most part, have led to creation of jobs in both developed and developing countries. It has also been pointed out that "EPZs tend to have very high staff turnover rates with the average career of a worker seldom exceeding five years" (ILO, 2003). The ILO (2003, p. 7) notes that "the intensive nature of production, cultural factors, use of fixed-term contracts, a lack of Human Resource Development (HRD) policies and underdeveloped labour relations practices in some zone enterprises contribute to the turnover". Zones with tight labour markets have noticeably better HRD policies and practices.

Jauch, Keet and Pretorius (1996) state that most countries that have adopted EPZs have been characterized by high rates of unemployment in urban areas and hidden underemployment in

the informal sector, as well as a heavy dependence on primary exports and low levels of technical know-how. Nevertheless, the social impact of zone jobs in areas of high unemployment and underemployment can be quite significant. Hence, while EPZs do not present a solution to unemployment, "it is nonetheless a viable source of employment creation especially if indirect employment is also considered" (ILO, 2003). The study came to realise that the introduction of EPZs programmes have resulted in disputes when it comes to employement issues. This is merely due to the cost cutting concept applied by companies within the zones through reduction or paying minimal wages. Most companies within this zones tend to operate in rural areas or well established cities due to the availability of basic services and resources, making it difficult for those in rural areas to benefit from these job opportunities.

Zones have also been a source of controversy due to labour and social issues. EPZ firms have been heavily criticised for exploitation of workers, paying them negligible wages and providing poor working conditions. The prevalent violations to labour and social rights have contributed to making the zones unpopular in several of the countries where the policies have been adopted (Jauch, 2002). Warr (1989), however, argues that many fail to take into account the employment possibilities and wages in poorer countries, and that workers are likely to be better off with EPZ employment than with no employment.

Milberg and Amengual (2008) find that workers within EPZs tend to work longer hours, often illegally, and further highlight that compliance with minimum wages does not necessarily imply that the workers receive wages that are possible to live well on. Cling, Razafindrakoto and Rouband (2005) do not find wages within zones in Madagascar to be significantly different from industrial firms in the formal sector outside the zones. They argue

in contrast to the critique that the zones in Madagascar seem to have been important in improving the working conditions in the country. They do however emphasise that the effect EPZs may have on working conditions may be very different in low and middle-income countries.

The question of labour rights in EPZs has been a source of early conflict in Namibia. Although Namibia's Social Security Act (NSSA) applies fully in EPZs, this is not the case with the Labour Act of 1992. Instead , the EPZ Act empowers the Ministry of Trade and Industry (MTI), in consultation with the Minister of Labour and Human Resources Development (MLHRD) to make regulations regarding basic conditions of employment, termination of employment and disciplinary actions, as well as health, safety and welfare conditions (LaRRI, 2000). The exclusion of Labour Act immediately led to heated debates and critics in Namibia. The Namibia government argue that "both local and foreign investment in the first five years of independence has been disappointing and that EPZs are the only solution to the high unemployment rate" (LaRRI, 54). His Excellency Dr. Sam Nujoma, the former president and founding father of the Republic of Namibia (RN) emphasized that "the exclusion of the Labour Act was necessary to allay investors' fear of possible industrial unrest, as strikes and lockouts were outlawed for a period of five years" (Ndivanga, 1995). This decision actually played a role in the increase of investors within Namibia's EPZ, as they were protected in regards to labour issues. This was a compromise the Namibian government undertook and was deemed necessary at that specific time to achieve the larger goal of job creations. It was a win-win situation, as that decision could backfire to the economy if workers are exploited through issues such as low wages, unlawful dismissals as they are not allowed to express their constitutional rights through strikes or

lockouts. Un-resolved labour issues can result in retrenchments and closure of business operations which contributes to the high unemployment rate in a country.

2.3.2. Dynamic effects

2.3.2.1. Government revenue

The establishment of an EPZ affects government revenue and expenditure in various ways. In terms of government expenditure, significant public investment infrastructure is often necessary, especially in state sponsored EPZs. The use of various fiscal incentives such as tariff exemptions, income tax exemptions and exemptions of other taxes may have a negative impact on government revenue. Gibbon, Jones and Thomsem (2008), argue that "Although tax incentives can stimulate investment, the empirical evidence on their cost-effectiveness remains inconclusive". Engman, Onodera and Pinali (2007, p. 32) maintain that "Government authorities that offer fiscal incentives to attract investment need to periodically evaluate their relevance, appropriateness and economic benefits and compare these to the related costs, which includes their long-term impacts on resource allocation."

The incentives must also be consistent with international obligations. According to a study by the Labour Resource and Research Institute (2000, p. 83) "Namibia is an example where incentives did not work well". Based on its findings, the Labour Resource and Research Institute (2000) recommended that "Namibia's current EPZ policy should be reviewed to ensure that the policy results in investment that will promote socio-economic development in Namibia instead of draining national resources, e.g. Ramatex Textile". Namibia tried to attract FDI to its EPZ at Walvis Bay, a well-constructed harbour with good infrastructure, by providing investors an indefinite tax holiday. After the enactment of the EPZ Act in 1995, the

authorities expected to reach 25,000 newly employed people within the first 5 years. Despite the very generous tax incentive, the EPZ had created a mere 400 jobs by 1999.

Nonetheless, perception persists, especially among developing countries that these types of fiscal incentives are needed to compete in a world where capital can flow freely and where trade liberalisation offers the opportunity to move production.

2.3.2.2. Technology transfer and knowledge sharing

One of the potential benefits of an EPZ is transfer of technology from foreign companies in the zone to domestic companies. Transfer or spillovers of knowledge and technology from FDI may be an important tool of growth. Technology transfer may be realised through several paths: forward linkages from a supplier of products to a buyer and backward linkages from a buyer of products to a supplier as well as through formal training, personnel transfer from one company to the other, etc. A domestic company situated in an EPZ may gain from some technology transfers from abroad as it is able to import capital goods and inputs on a duty free basis. Given that most products produced in EPZs are exported, there is often little scope for further forward linkages to domestic companies outside of the zone.

The LaRRI (2000) argues that most EPZ workers training is often limited to a specific task and not easily transferable. EPZ foreign investors often require being able to use their own nationals in managerial and technical positions, perhaps to avoid the costs of training and to maintain greater flexibility to move production (Jauch et al., 1996). Kusago and Tzannatos (1998) further argues management, supervision and advanced technical training do of these reasons tend to only happen on a small scale, with little effect on skill levels. Research and development facilities are moreover likely to be kept within developed countries when

production is moved to countries with low-cost labour. This limits technological spillovers to the developing country (Wu, 2009). According to Fosfuri et al. (2001, p. 220), there is a heightened possibility for technology transfers to occur when "on-the-job training is general rather than specific, and when the absorptive capability of the local firm is high". The process of learning or adapting new technology may induce significant costs in the short-term for domestic firms. The government in the host economy should aim to expand the opportunities and the capacity of domestic firms to learn from EPZ firms. This will help the domestic employees to gain sufficient knowledge which they can use to their own benefit in the future.

2.3.2.3. Backward linkages

Development of backward linkages between export-oriented companies and the rest of the economy can bring potentially large benefits to a host country. Backward linkages occur when technology is transferred from a company buying an input (e.g. a multinational company) to a company selling the input (domestic company). This are the use of local raw and intermediate goods by the EPZ firms, as these are found to be crucial to increase the net benefit of the EPZ program. It may also occur when a multinational company inside the zone subcontracts some of its production to a domestic company outside the zone. Technology transfer occurs because buyers have an incentive to help the seller to meet the specifications that it needs.

A study of the EPZs in the Dominican Republic finds that even though the zones had a great effect on export levels, the zones had few linkages to the domestic economy, as they were getting the raw materials outside the host economy. The effect of the zones on the domestic economy was for this reason limited (Willmore, 1995). Despite high expectations, backward

linkages have been weak in many cases although the share of domestic products tends to increase with time. The weakness of backward linkages is due to several reasons. Often local firms do not have the technological capability to provide the inputs required by the foreign companies in the EPZ. This may especially be the case if the domestic economy is small and the domestic company has no intentions of selling in the export market, as the returns to skill upgrading is not considered very high.

Backward linkages also depend on different other factors such as the age of the enterprise is positively correlated with the share of local raw materials used in production, suggesting that firms become gradually "more acquainted with the local environment and the ways of doing business" with time (Jenkins, 2006, p. 333). Jenkins (2006) further finds that a firm's capital intensity is positively and significantly correlated to the propensity to form backward linkages, and argues that capital-intensive firms are likely to be less footloose and likely to remain in a country for longer. Smaller firms and firms that sell a larger proportion of their output in the domestic market are furthermore more likely to use higher shares of local inputs (Jenkins, 2006). Due to market forces of demand and supply, companies either within or out of EPZs are free to choose where to buy their raw materials (inputs) at the best price and preferred quality on the world market. This has really made it difficult for the backward linkages to develop between EPZ companies and local firms in the host countries as most EPZ companies in developing countries import their machines and input materials from outside.

However, there have been instances where countries have provided well-structured policies extending EPZ treatment gradually to firms located outside the zone, inducing in some cases relevant linkages. "Chinese Taipei, Ireland, Korea, Mauritius and Saint Lucia are examples

where local entrepreneurs were able to supply EPZ producers with material inputs treated duty free" (Gibbon, Jones & Thomsem, 2008). Technology transfer may also occur when there is transfer of personnel between a foreign company and a domestic company. Esquivel, Jenkins and Larrain (1998, p. 6) provides the example of "Masan, Korea where an estimated 3000 to 4000 persons received specialised training in the zone and abroad (especially Japan), half of which eventually left the zone to work in local electronic Korean firms."

It is often pointed out that technology transfer may be limited as employment in EPZs is often concentrated in low-skilled labour areas. However, in the case of successful EPZs in Asia, "there has been a general trend for the ratio of labour intensive industries in EPZs to decline significantly" (Kusago & Tzannatos 1998, p. 8). In this context, knowledge spill over and human resources development can occur more frequently as these industries focus more on the delivery of increasingly high value and knowledge intensive production. "chances increase in particular for local middle managers, which, in many instances (e.g. Philippines and Mauritius) took advantage of their working experience in EPZ-based foreign firms to start their own companies" (Engman, Onodera & Pinali, 2007). Countries applying the EPZ concept should regulate it and set it up in such a way that the local firms benefits from this programme through backward linkages. The local firms should be protected through this policies which should clearly stipulate that certain raw materials should not be imported if they are readily available on the local market. Through this, more interaction is more likely to take place between EPZ companies and local producers. The other effect is to encourage more inter-job transfers. Sending local employees in the EPZ companies to their country of origin to gain more knowledge and acquire sufficient skills in key areas.

2.4. EPZ Costs and Benefits

The LaRRI (2000, p.27) argues that "EPZ host countries need to undertake careful cost-benefit analysis to determine the real profitability of such programmes". LaRRI (2000, p. 27) further states that "there are two types of costs that needs to be considered", namely:

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

According to Sherbourne (1993, p.5), "the direct costs of establishing an EPZ enclave can be substantial, and host countries have to compare the costs of creating jobs in EPZ with cost of creating jobs elsewhere in the country". "Large amounts of capital are required for basic investments like the purchase of land for 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, 2003, p. 135). LaRRI (2000, p. 27) further argues that, "despite large investments in infrastructure, a very limited number of jobs might be created".

"Establishing net gain or loss of EPZs is very difficult since some of the variables involved cannot easily be computed, hence, the costs and gains must be measured at different levels using yardsticks according to type of value" (LaRRI, 2000, p. 28). Different incentives given to attract investors are not always necessarily in harmony with the host countries development interest. The different cost in this regards may significantly increase the cost of EPZ programmes. It is than advisable for any government pursuing EPZ programmes to

weigh the different costs most likely to be incurred and take drastic measures to avoid any risks. Some companies might merely join the industry to exploits its resources, making use of the favourable incentives given to them. Some zones attract industries that aim to avoid environmental regulation in their host country, thus taking advantage of the accommodating incentives in the host country.

2.5. Determinants of Investments

2.5.1. Traditional EPZ incentives

Despite significant investments in EPZs infrastructure and services at times, EPZs in Africa have mostly seen low inflows of both foreign and domestic investments, and the economic effects of several of the EPZs so far have been minimal. However, though the absolute level of foreign investments within African EPZs programs is relatively low, foreign investments within the EPZs tend to make up a relatively high share of total foreign investments in the country (Farole, 2011). Hence, Farole (2011, p. 71) further argues that "the relative failure of the African EPZ programs to attract investment may be due to a poor overall investment environment than to the failure of the zone programs themselves".

Several factors have been found to hamper investment in African zones, such as "insufficient incentives and promotion, poor location, inadequate trade policy reforms in the host country, inefficient bureaucracy and inadequate infrastructure" (Kinunda-Rutashobya, 2003, p. 228). The key to success of any given business is to operate in a very conducive environment, conducive in such a way that the supporting infrastructure and services should be accessible. It's very important for the host country to ensure that sufficient investments have been enhanced in developing or setting up the business environment, which is then supported by

the favourable incentives. Despite the good incentives, most EPZ companies still want to operate in a good environment at all times to avoid unnecessary economic unrest or non-supportive infrastructure which will hinder their production.

In most cases, successful EPZs have common features including "favorable location, adherence to the basic EPZ principle, i.e. duty-free imports of inputs, minimized red-tape procedures, guaranteed profit repatriation and the presence of a supporting infrastructure such as telecommunication, electricity and water" (Johansson & Nilsson, 1997, p. 2118). A study of the investors in the Caribbean Basin finds that investors tend to prefer countries with low labour costs, relatively long tax holidays, and relatively large zones (Woodward & Rolfe, 1993). Woodward and Rolfe (1993) argue that EPZ incentives such as tax holidays and guaranteed profit repatriation may have an important signaling effect regarding the host country's attitude towards FDI and affect the perceived business environment. Rolfe et al. (2004) find that most investors within Kenyan EPZs preferred a tax holiday followed by high tax rates to infinitely low taxes. This may suggest that investors put emphasis on short-term gains or plan on exiting the zones at the end of the tax holiday, which is consistent with the footloose nature one tends to find within EPZs. Farole (2011) does not find traditional zone incentives such as low wages, trade preferences, and fiscal incentives to be correlated with the success of the EPZs, rather, other incentives, including infrastructure, have greater significance for success. Woodward and Rolfe (1993) report that investors in the Caribbean Basin preferred countries that already had a high concentration of manufacturing, signifying that foreign investors favour agglomerations and the existence of external economies of scale. Thus, countries with relatively low levels of manufacturing may have disadvantage to other countries where that sector is more developed.

2.5.2. Domestic Sales and Investments

The size of the domestic market is found to have a positive effect on investment within the EPZ, as larger markets supports large-scale production and infrastructure (Milberg & Amengual, 2008). Most African countries, however, are small, both in terms of population and in terms of GDP (Rolfe et al., 2004; Asiedu, 2006). According to Rolfe et al. (2004), the ability to sell goods in the domestic market does not affect the decision of apparel investors to invest, and only has a negligible effect on non-apparel investments in Kenya. The effect of allowing greater domestic sales is disputed. Improved access to low-priced goods from the EPZs can be beneficial for domestic consumers, but may also potentially prevent domestic producers from developing (ILO, 2003). Larger domestic sales from the EPZs may also increase linkages to the economy, as found by Jenkins (2006).

The share of local investments has increased and become more important in a number of zones over time, e.g., Mauritius, Malaysia, and the Republic of Korea, and is now increasing in zones in China, Bangladesh, and Vietnam. Domestic investments are argued to be essential for greater integration between the zones and the domestic economy, as they provide greater benefits for local firms and contribute to a higher share of revenues transferred to the domestic economy (Wu, 2009; Farole, 2011). Jenkins (2006) finds empirical evidence that firms owned mainly by local investors are more likely to purchase intermediate inputs from the local market, increasing the likelihood of backward linkages to the economy. Jayanthakumaran (2003) argues that the national interest in EPZs is likely to persist if the zones generate private profit to domestic shareholders and are more beneficial for the country in the long term. Many African EPZs have a relatively high share of local investments from the beginning, and the majority of investments within zones in Senegal, Tanzania, and

Nigeria remain domestic (Vastveit, 2013, p.24). Interaction of EPZ companies with local firms and domestic consumer is very important, as it has the potential to develop great backward linkages, but should be well regulated when it comes to the quantity of goods the EPZ companies are allowed to sell to the domestic market. Regulations should be in place, to ensure that EPZ companies only sell a certain percentage of their production to the local market, and export the rest. This is the key, as it will increase the export rate which largely contributes to foreign exchange earnings, which is one of the determinant factor of a successful EPZ programme.

2.5.3. Productivity, Labour Costs, and Working Conditions

Attempts to attract foreign investments by offering access to cheap labour in Sub-Saharan Africa (SSA) may not be sufficient if other EPZs offer more favorable productivity and unit labour costs (Jauch, 2002). SSA has relatively low labour costs but also low labour productivity, and labour costs tend to be higher than what is predicted by the income level and labour productivity, at least when compared to East Asia (Clarke, 2012; Cling et. al, 2005). Some studies attribute the relatively high labour costs to the large natural resource endowments in many African countries, as will be elaborated below. According to some scholars, SSA countries may be more competitive in industries that take more advantage of the countries' natural resources than its surplus labour, as is further elaborated below. Watson (2001) does on the other hand argue that low levels of skilled labour and low levels of productivity do not imply that light manufacturing is not suited for Africa.

According to Watson (2001), skills and productivity have improved steadily in countries in Asia and the Caribbean where EPZ programs have been successful, and can also take place in Africa. Several countries partly or fully suspend labour rights within the zones to attract

investment, e.g., India, Bangladesh, Zimbabwe, Kenya, and Namibia. Union activity in these countries is often banned and minimum wages are not applicable (LaRRI, 2000). According to the World Bank (1992), for the zones to be successful, it must be easy to hire and retrench workers, and regulatory interventions and controls within the zones must be minimal. Jauch et al. (1996) claim that use of EPZs is only "likely to lead to down spiral of labour standards" in SSA due to competitive pressure (1996, p. 48). Poor labour standards within the zones, and the potential for the vast numbers of zone programmes to cause a further weakening of labour rights are a matter of concern and critique of the use of EPZs programmes and also of the firms utilizing them (ILO, 2003). Poor labour conditions are also a potential source of conflict, which should be taken into consideration by the government (LaRRI, 2000). Labour issues is an area of concern within the EPZs setup, as they have been opposed, critised and continues being an area of debate. Some countries take up the initiative of suspending labour rights in compromise to job creations. This have contributed to an increase of EPZ companies within a host country, but at the same time increasing disputes between employer and employees within zones. SSA labour cost is low, but the production level of employees are low as well which triggers a concern, and needs to be addressed as soon as possible to ensure that EPZs are successful in developing countries. Critiques have also been raised in regards to poor working conditions experience within EPZs due to the suspension of certain labour act in a country. Employees become very vulnerable, as they can be hired and fired any time without executing their constitutional rights through strikes or lockouts. There seems to be a high employee turnover within EPZs due to the outlawed labour rights.

2.5.4. Infrastructure

Farole (2011) finds a strong correlation between infrastructure quality and levels of investment, exports, and employment within SEZs. He argues that poor infrastructure has detrimental effects on investment levels in many SSA zones. Collier and Venables (2009) find energy and transport prices to be relatively high in Africa, due to the failure to take advantage of economies of scale and to pool risk for public goods. This disadvantage is a result of many African countries being small and undeveloped. Electricity supply in SSA is also often relatively unreliable, and as energy is a fundamental input in most manufacturing, energy supply and pricing may have a severe effect on the competitiveness of African manufacturing firms (Farole, 2011).

The EPZ concept may be an attractive policy for African governments because it is easier to improve infrastructure in one specific area than the whole country (Watson, 2001). The use of export processing units (EPUs) may increase the "logistical challenges of addressing investment climate challenges, such as special customs clearance regimes, one stop services and reliable infrastructure" (Farole, 2011, p. 148). However there is no clear evidence in the literature that having EPUs makes a difference with respect to investments or the net benefit of the zone programmes (Farole, 2011). Soft and hard infrastructure may have major impact on transport, logistics performance, and trade facilitation, which in turn have potentially important impacts on trade costs. Trade costs moreover affect patterns of trade and investments, by affecting countries' "ability to take part in regional and global production networks" (Arvis et al., 2013, p. 3). The cost of trade is also determined by location, as is further discussed below. The average trade costs for manufactured goods to the top 10 import countries, between 1996 and 2009, are estimated to be considerably higher from SSA than

other regions. Many African ports have relatively low performance, and many African zones lack on-site customs (Farole, 2011). Landlocked countries within Africa may experience a further disadvantage (Watson, 2001). Farole (2011) finds that the reported time needed to clear imports from customs was considerably higher in the studied African countries' SEZs than non-African SEZs. Infrastructure remains one of the key determinant factor to attract investment in both developed and developing economies. EPZ companies seek to invest in areas with reliable and easily accessible infrastructure such as roads, airports, harbors as well as network communications. Companies within EPZs also look at areas with reliable and cheap reliable service (electricity and sewage systems). Cost remains a profound determinant of any business operation, thus, EPZ companies also prefer good infrastructure to reduce cost in terms of time and money when it comes to exporting their products and so forth. This gives countries with harbors' a competitive advantage when it comes to exporting goods to Europe, Asia, Korea, United State of America (USA), China, Russia etc.

2.5.5. Location

The geographic position of the host country may have significant impact on the amount of investments the zones are able to attract. Locating close to the finished goods' markets gives firms the opportunity to reduce transport costs and shorten delivery time, and these benefits may make some zones preferable to others, and can also compensate for higher taxes or labour laws in the zone (Mandani, 1999). According to Sargent and Matthews (2004), geographical proximity to rich industrial areas gives zones an advantage relative to competing zones, which may keep investors within the EPZs even when relative costs increase. Hence, countries close to larger markets may be more likely to experience a shift to higher-value added and technology-intensive production. Kaplinsky (1993) argues that the

Caribbean and Central America have a comparative advantage relative to Asian countries, due to their proximity to the USA, which allows them to have higher wages relative to those in developing Asian countries.

A possible comparative advantage for SSA is the region's abundant natural resources, and hence proximity to raw materials. Manufacturing activities related to the region's natural resources could potentially be very advantageous for African zones and better utilize domestic capacity (Farole, 2011; Dihn et al., 2012; Chinguno, 2009). Some African countries have incorporated their natural resources into zone activities; for example, Ghana has managed to attract significant foreign investment in activities related to natural resources such as cocoa, wood, and fish. Nigeria has also had success with a zone established to act as a trans-shipping point to service the oil and gas industry in the country. Other industries in Ghana and Nigeria have not been able to attract a comparable level of investments (Stein, 2012; Farole, 2011). As evident in many business operations, finding the suitable location remains a challenge. Wrong location might result in business failure, hence many EPZ companies scrutinize and analyse their preferred location looking at different attributes as mentioned above. Besides the conducive incentives offered by the host countries, EPZs companies still need to emphasize on their location looking at things such as targeted market, how close are they to the raw materials, how conducive is the labour act, just to mention a few.

2.5.6. Location within a country or region

Location within the country may also affect how attractive zones appear for investors, and poor location is one of the main reasons given in the literature for failure of zone programs. Foreign investors tend to favour agglomerations, access to quality infrastructure, and deep

labour markets. “Productivity furthermore tends to be higher in clusters of economic activity, due to lower transport costs, improved communication, and positive learning externalities, among other factors” (Collier & Venables, 2009). Most zones are located close to trade gateways such as ports or airports, to provide good access to the global market. EPZ programs are however sometimes used to generate an inflow of investment and an increase in employment opportunities in areas with low levels of economic activity (World Bank, 1992).

The location of zones may have a significant impact on the net benefit of the project. The cost of establishing the necessary infrastructure in the area of the zone is radically higher if no prior infrastructure exists there, than if a more developed area is chosen. Furthermore, less developed areas most often do not offer easy access to skilled labour or well-developed infrastructure (Jayanthakumaran, 2003). Zones used as a tool to create regional development in less developed and more remote areas have rarely been successful because of these reasons, e.g., in Nigeria, Bangladesh, Vietnam, Dominican Republic, and Lesotho (World Bank, 1992). Foreign investors tend to be very careful when selecting a location within the country which they have decided to set up their organization. In other words, selecting the suitable country is not the end of everything, as the EPZ companies still have to look at other factors within a country or region. As stated above, locations can be selected by the hosting government to promote development in that specific region, which in some cases doesn’t yield the required results due to different factors, such as poor infrastructures and access to supporting services.

2.5.7. Political and Economic Stability

“A suitable macroeconomic, exchange rate, and trade policy regime, together with a legal and regulatory environment favorable to business” is argued by the World Bank (1992, p. 10)

to be very important for developing countries to build a manufacturing sector able to export to the world market. Woodward and Rolfe (1993) find empirical evidence that inflation had a negative effect on investments, while a depreciation of the exchange rate had a positive effect on investments within zones in the Caribbean Basin. A competitive real exchange rate is found to be key for export growth, and is especially important for exports of modern services according to Eichengreen and Gupta (2013).

Exports of natural resources, which are relatively abundant in many SSA countries, may lead to an appreciation of the local currency and higher costs of living, and consequently higher labour costs compared to other countries. The inflow of foreign aid and monetary policies may moreover contribute to the effect (McMillan & Rodrik, 2011). Stein (2009) argues that many African governments make too frequent shifts in policy, reducing investors' confidence that favorable EPZ policies will persist, and that continuity is needed. In some SSA countries, opposition parties and the media have been critical of EPZ policies, showing a lack of consensus and concerted action with possibly negative effect on investments, e.g., in Namibia and South Africa (LaRRI, 2000). According to Aseidu (2002) overall FDI to SSA is impeded by the perception that investments in region are of higher risk. Political unrest has affected investments within SSA countries. Mandani (1999) notes that foreign investment in Togo and in Zaire, today the Democratic Republic of Congo, were considerably affected by political unrest in the early 1990s. A political crisis in Mozambique in 2000, after a presidential election, also had a severe effect on investment and production levels within the zones, and caused about 70% of workers within the EPZs to lose their jobs. Investment levels did however later recover some (ILO, 2003).

The uncertainty associated with unstable political environment may reduce investment and the speed of economic development. On the other hand, poor economic performance may lead to government collapse and political unrest. Political situations is key to EPZ companies, as politics can largely influence the company's productions. Unstable political economies tend to have a high risk of business failure, as they create unsuitable atmospheres within the market. A healthy economy can as well be used as a country's promotional tool to attract both foreign and local investors. "The relationship between economic growth and stability refers to the manner in which the political stability of a nation can lead to its economic growth" (Yang, 2015). The bottom line in this regard, is that no company or individual will feel comfortable making any kind of capital investment in any country where the political and economic climate is characterized by a lot of uncertainty. This is because such risky investment would go against the main aim of making profits.

2.5.8. Trade Agreements

Trade agreements may have significant positive impacts on countries' competitiveness, by giving some countries preferential access to certain markets. Trade policies may hence affect how attractive the countries appear for investors. There are several agreements with potentially significant effects on African trade, among them the Cotonou Agreement, African Growth and Opportunity Act (AGOA), and the Everything But Arms (EBA) agreement. Prior to 2005, the Multi-Fiber Arrangement (MFA) also contributed to reducing the competition African countries met from Asian countries, among others (McCormick et al, 2006). Jayanthakumaran (2003) finds a strong correlation between the growth of EPZs and the MFA, and finds the MFA to have a significant effect on global production patterns of apparel products, as firms moved overseas to obtain access to the quota shares under the MFA.

AGOA was initiated in 2000, providing eligible Sub-Saharan African (SSA) countries duty-free quota-free access to the US market (Vastveit, 2013). The effect of the AGOA has however been concentrated within textile and apparel exports, and in a few countries, specifically: Kenya, Mauritius, Madagascar, and Lesotho (Collier & Venables, 2007). Cling et al. (2005) argue that beneficial access to large markets, through mainly AGOA, was one of the main factors that contributed to the EPZ policies being relatively successful in Madagascar. According to Collier and Venables (2007) AGOA has been critical in keeping investors and levels of exports in African zones after the phase-out of the MFA.

The EBA agreement was initiated in 2001, giving countries classified as Least Developed Countries (LDCs) by the United Nations (UN) duty-free access to the European Union (EU) market for almost all types of exports (Vastveit, 2013). The agreement has had less noteworthy effects on African processed exports than the AGOA. Collier and Venables (2007, p. 1335) argue that LDCs are less likely to be able to take advantage of preferential market access than more developed countries in Africa, if given access, as they are "least likely to be near the threshold of global manufacturing competiveness". In contrast to the AGOA, the EBA agreement also applies a rule of origin for textile and apparel exports to LDCs "justified as a means of supporting more processing in developing countries" (Portugal-Perez, 2008, p. 21). The rule of origin has significantly depressed textile and apparel exports to the EU according to Portugal-Perez (2008). The end of the MFA in 2004 had a significant effect on garment sector exports in SSA. Apparel exports in East and South Asia, especially Bangladesh, Vietnam, and Cambodia, together with China grew rapidly between 2004–2008, while other regions such as Central America, the Caribbean, and SSA experienced declines of up to 40% in exports and large losses in market share (Farole, 2011).

Trade agreement are necessary for most economies as they can create a predictable environment which can attract investments. Developing countries can utilize trade agreements by diversifying from one industry and develop other industries which could enable them to trade more with the USA, EU or any other developed countries as they have preferential access to this markets.

2.5.9. Timing and Number of Competing Zones

The timing of the establishment of the zones in Africa is a possible explanation for why SSA zones have not been more successful. Many of the zones with the greatest success, in East Asia and Mauritius, were established in the 1970s, when there were fewer zones to compete with. The majority of SSA zones, with the exception of those in Senegal and Lesotho, were established much later, during the 1990s, when competition between the zones to attract investors was much higher (Wu, 2009; Farole, 2011). On the other hand, zones established at a later stage have the advantage of learning from the experience of others (World Bank, 1992; Chinguno, 2009).

Table 1: African Zone Programmes by Decade of Launch

1970s	1980s	1990s	2000s
Liberia	Djibouti	Burund	Gabon
Senegal	Togo	Cameroon	Gambia
Mauritius		Cape Verde	Mali
		Equatorial Guinea	South Africa
		Ghana	Zamibia
		Kenya	
		Madagascar	
		Malawi	
		Mozambique	
		Namibia	
		Nigeria	
		Rwanda	

	Seychelles
	Sudan
	Uganda
	Zimbambwe

Source : Farole (2011)

The noteworthy increase in number forces the different zones to compete with each other and offer costly incentives without necessarily being able to attract sufficient investments. The net benefit of the zone programs may decline with the increase in the number of zones. The attempt to offer incentives superior to other zones is called the 'race-to the- bottom effect' and traditional EPZ incentives, such as low labour costs, trade preferences, and fiscal incentives are argued to be unsustainable (Jauch, 2002). Kaplinsky (1993) argues that countries may experience a competitive disadvantage if a number of countries attempt to exploit their unskilled labour by attracting labour-intensive production at the same time. In the same way, it will lead to little gain for the country to devalue its currency if a number of other countries do the same. Kaplinsky (1993) further argues that the most viable alternative is to increase industries that do not only rely on unskilled workers, but use different types of skilled workers. According to Wu (2009), the increase in competition no longer makes it beneficial to establish EPZs that mainly rely on low-cost labour. There are also concerns that the increase in competition will diminish attention to workers' rights and will lower wages, significantly reducing the gains of EPZ employment for the worker (McCallum, 2011). Farole (2011, p. 89) argues that SSA zones may have been "too late to take advantage of the massive globalisation of manufacturing that accelerated during the 1980s and 1990s". However even for successful zones it has taken time for investments to increase, for example in Malaysia and China. Farole (2011) finds the age of zones to be positively correlated with

export volume, but that age alone does not explain the vast differences in the outcomes of the zone programs.

2.6. Integration of EPZs into the domestic economy

"The degree of integration of EPZs into the local economy is largely determined by the decisions taken by the host country's government, they are policy orientated and administrative in nature" (Omar & Stoever, 2008). One of the major decisions is whether, and at what pace, local firms should be allowed to move into the zones in order to benefit from the same advantages that foreign investors enjoy. A related decision is whether and when to allow the sale of EPZ produced goods in the domestic economy. Although these decisions will ideally be based on rational assessments of the country's readiness to integrate EPZs into the domestic economy, in practice, they are often based on political considerations as much as economic ones.

EPZs that progress into more advanced stages create various benefits for the wider economy. "The movement of workers and managers among firms, the nearly instantaneous matching of machinery purchases and imitation of successful production and quality control procedures by proximate rival companies; the accumulated knowledge that suppliers with multiple clients could apply to new orders: and the coaching that foreign investors provided to assist local producers in expanding their exports" (Moran, 2002, p. 132). Each of these factors contributes to the breaking down of the barriers between the zone and the rest of the host economy. Each is also improved as the host country increase the training and technological capabilities of its workers.

The experience of China provides an illustrative examples. Following the early success of Shenzhen, the Chinese government established four more coastal SEZs in 1979 and, later, the Hainan Island SEZ in 1984 and Pu Dong SEZ of Shanghai in 1991. Over the next few years, it designated fourteen coastal cities as open cities for foreign investment. The introduction of SEZs and open cities gradually blurred the lines between the zones and the rest of the country (Moran, 2002).

Moran (2002, p. 125) noted that special case of small but progressive island economies, commenting that "Authorities in both Singapore and Hong Kong essentially turned each country in it's entirely into a single integrated EPZ". According to Tekere (2000) "the same was also true to some extend in Mauritius, although its EPZ industries have not progressed beyond the stage of crying out the assembly work on imported components".

Tekere (2000) further argue that "less successful countries, such as Egypt, Ghana, India and Tunisia governments failed to provide the institutional support to foster backward linkages and more liberal environments and thus inhibited their EPZs from moving further along the EPZ trajectory". They did not encourage domestic producers to move into the zones either, and in some cases actively prohibited them from doing so. As a result of that, extensive backward failed to develop, and these EPZs remained stagnated as isolated enclaves". In cases where EPZs successfully evolved with regard to integration, there is evidence that they played an important role in transforming the wider host economy.

CHAPTER THREE

METHODOLOGY

3.1. Introduction

As alluded to early in chapter two, export processing zones aim to promote the manufacturing sector, and thus special tax incentives are offered to eligible investors and exporters of manufactured goods. The logic behind this EPZ programme is to attract investment to Namibia as there are no restrictions on the industrial sector provided that exports are destined for markets outside Southern African Development Community (SACU) region, earn foreign exchange earnings, create jobs for Namibians, and ensure that there is backward linkages as well as the transfer of technology and skills spill over occur. Despite all this favourable business conditions towards EPZ enterprises, some of this company's contribution to the socio-economy of Namibia have been minimal. The study used empirical data to explore and assess the impact of the EPZ regime in Namibia, in recognition that Namibia has been offering special incentives for manufacturers and exporters of goods manufactured in Namibia.

3.2. Research Design

The research is a case study which used both qualitative and quantitative secondary sources of data. The study has carried out an in-depth study of available literature and documentations on EPZs. Data was collected from the Ministry of Trade, Industrialisation and Small and medium enterprises Development (MITSD), as well as from the Offshore Development Company (ODC). ODC is the institution charged with the promotion, marketing, monitoring and co-ordination of all export processing zone activities and the

provision of umbrella service to EPZ enterprises in Namibia. Data was also collected from companies that were awarded EPZ status which are still operating.

Data was collected by the following means:

- Study of the Export Processing Zone (EPZ) Act (Act No.9 of 1996). Data from the act was instrumental in providing insight into the legislative framework of the EPZ.
- Empirical data gathering from the Offshore Development Company (ODC). ODC provided all the detailed reports (Bulletins) and documents on EPZs deemed to be necessary for the in-depth study.
- Empirical data gathering from companies that enjoyed EPZ status. The purpose of this data was to establish the experiences and the challenges on successes of the EPZ act. Gathering data on both static and dynamic effects of EPZs.
- Empirical data gathering from Bank Of Namibia (BON). This data gave details of the foreign exchange earnings from EPZ exports.
- Empirical data gathering from Walvis Bay EPZ Management Company. This gave insight on trade matters partnering to EPZ at Walvis Bay.
- Using secondary data from countries which have implemented EPZs in the region. This included statistical information from different institutions as well.

Although quantitative data was used, this is mostly to substantiate and support the qualitative nature of the study.

3.3. Population

The target population of the study was 21 companies and government institutions. These were the 18 companies which have been awarded EPZ status which are operational in Namibia, plus the 3 institutions which are directly involved with Namibia's EPZs.

Documents from ministries involved with trade, commerce and fiscal policy were reviewed. In particular documents from MITSD, Ministry of Finance, the BON and the ODC were examined. Other documentation were from cooperating partners. These sources of documents was selected with priority given to relevancy and accuracy.

3.4. Sample and sampling techniques

3.4.1. Primary data

From the population size, only a few were interviewed from those companies and institutions. The study used Microsoft excel to arrange all the companies as per their geographical location and operational activities. Cluster sampling was applied, whereby the criteria used to select the companies included the nature of economic activities, and the geographic location if needed. Companies were grouped according to their production activities and site setup up per region. This sampling technique ensured that all the companies enjoying EPZ status are represented in the sample. The focus of the study was to gather empirical data from major companies in the sector. There is a total of 18 companies enjoying EPZ status, of which 12 companies were selected to participate in the study, plus the 3 additional institutions. The total sample were 15 EPZ companies and institutions. This served well for this study, because the sample was big enough and the

selection was based on the company's economic activities and geographic location preventing the study being biased.

3.4.2. Secondary data

Documents from the Ministry of Industrialization, Trade and SME Development and other Government institution partnering to the EPZ were reviewed. Other documentation from cooperating partners were selected with priority given to relevancy and accuracy. The documentation had to be relevant in giving insight into the issues surrounding the impacts of EZP on the socio-economic growth of Namibia.

3.5. Research Instruments

The study has carried out an in-depth study of available literature and documentation on EPZs. Few operational EPZ companies selected in the sample were visited to conduct an in-depth interviews with EPZ managers and government officials. The objectives of the empirical data was to draw on a wide range of material to sum up EPZs' impacts in respect of promoting export growth and diversification, promoting back-ward linkages and diffusion of technology and skills, and promoting employment.

3.6. Data collection procedures

The rightful procedure was followed in this regard, by which the primary data derived from an in-depth interview conducted. The secondary data of the study was obtained from an in-depth study of available literature and documentation on the topic.

3.7. Data Analyses

According to Combs and Onwuegbuzie (2011, p. 3), “one means of which qualitative data can be integrated during data analysis is to transform one data type into the other to allow for statistical or thematic analysis of both data types together”. Given that, the study had reviewed and examined sufficient data from export reports, foreign exchange reports, as well as other bulletins deemed to be necessary and accurate. This method of data analysis is referred to as the Integrative Strategies to analyse data. The study also applied the same principle of using Excel Data Analyse Tool pack for quantitative data, and apply the thematic data analysis approach for the qualitative.

The quantitative data was analysed using the Excel Data Analysis tool pack. Given the studys limited resources, the Excel data analysis tool pack was more convenient for data entry, and one could quickly manipulate rows and columns prior to statistical analysis. The qualitative data was scrutinised and analysed using the thematic data analysis approach. The data was coded to develop themes within the raw data by recognising important data and encoding it prior to interpretation. This process consists of reading transcripts, identifying possible themes, comparing and contrasting themes, and building theoretical models. Data has been presented in the form of tables, graphs, pie charts for comparative analysis. The study compiled statistical institution such as the Bank of Namibia for presentation, and comparing of periodical analysis. A sober analysis has been undertaken in terms of the costs and benefits of EPZs to determine its suitability for Namibia.

3.8. Ethical Issues

The study was conducted by means of applying good ethical practises. In this regard, the interviewer followed the right channel of explaining the sample, and guarantee anonymity of any individual under study. The study did not collect identifying information of individual subjects (e.g. name, physical address, telephone numbers etc.).

Confidentiality was applied, by means of not sharing the information deemed to be confidential. The study made sure to prevent anyone outside of the project from connecting individual subjects with their responses.

The subjects were informed about their rights, the purpose of the study, the procedures undergone and the potential benefits and risks of participation. The subjects in the study were also asked to participate willingly, as no individuals from our target organisations were forced to take part.

All work of other authors had been acknowledged in the study. The study applied the American Psychological Association (APA) style of referencing, to ensure that quoting, in-text citing is done properly, and a reference list of works cited is included to avoid any sort of plagiarism.

Integrity when conducting this study was taken into consideration, to ensure that there is fairness, consistency, trustworthy and trust. Results and findings of the study were provided to all parties involved during our data collection process.

CHAPTER FOUR

Results and Discussions

4.1. Introduction

This chapter's aim was to answer the research question posed in the introduction: Looking at EPZs programme impacts on the socio-economic growth of Namibia. The question was answered by addressing the four questions: i) Did the EPZ concept provide a sustainable path to economic development, poverty alleviation, and job creation in Namibia? ii) Did the EPZ concept really had an impact on domestic entrepreneurship? iii) What has been the impact of EPZ on the socio-economic welfare of Namibia, i.e. Spill over as well as skills transfer? iv) Did EPZ play a major role on the diversification of Namibia, looking at the possible revenue gains/ losses by government? To address this questions, Namibia's EPZ programme prospects for realizing benefits such as increased foreign exchange earnings, export diversity, generation of employment, knowledge sharing and technology transfer, as well as the development of backward linkages are assessed. The conditions needed for such benefits to occur, the significance of governments' incentives, and additional policies supporting the Namibia's EPZ program are explored. Policy recommendations are included.

4.2. Economic impacts

4.2.1. Employment creation

The EPZ programme is yet to fulfil the government's objective of direct job creation. Among other factors, most companies enjoying EPZ status have adopted global trend strategy for acquisition of capital intensive machinery and equipment's instead of labour intensive approach, resulting in less direct job opportunities.

The total number of employment of the currently operational EPZ companies in Namibia stands at only about 1,946 of which 40% percent are employed by Dundee Precious Metals Tsumeb. There is about 19 operational EPZ companies in Namibia among three sectors, namely Mineral processing with a majority 14 companies, followed by the General manufacturing sector with 4 companies, and Assembly operations with merely 1 company. Thus, about 90% of the employees are employed in the mineral processing sector.

Source : Offshore Development Company (2015)

Looking at the figure 1 above, the highest level of employment through EPZ programmes was between the years 2002 to 2004, after which it started to decline after the closure of Ramatex factory in Windhoek. This had very negative impact on the economy, as most of the workers were left unemployed.

It is often believed that EPZ companies create indirect jobs in the broader economy. The Offshore Development (ODC) stipulates that it set up the EPZ Park in Oshikango which kick-started development in the town, including restaurants, shops, and warehouses and lodges (Interview with R. Amaambo). To date, there is little manufacturing activities taking place in Oshikango, the only exception being Fatima Plastics which manufactures plastic bags, tables, chairs, vegetable rakes and kitchen wares. According to the LaRRI (2000, p. 50) some business people are also questioning "why such an expensive business center was constructed at a high cost, hence having little impact on job creation".. Safety Hazards and poor working conditions may also negatively impact workers in the long run, which they may not be able to anticipate or take into account.

The ODC created more than 4000 direct job opportunities through its programmes and interventions, which include the construction of the Namibia Trade Hub facility in Windhoek, Inland Container Terminal/Dry Dock at Oshikango and the Omahenene Business Park, respectively (Heita, 2015). The jobs created were only during construction, hence, this didn't really contribute to the long term job creation solution. Most jobs are short term, and the employees often end up unemployed after the construction of these parks.

Although it is difficult to measure the number of indirect jobs created by EPZ programme, it seems like very few employment opportunities were created through servicing of EPZ companies. In most cases, EPZ companies tend to carry out their maintenance in-house or

require little service from the locals. The EPZ regime, which is focused on export- oriented manufacturing and operational companies, has highlighted the general lack of skilled labour in various sectors.

Dundee Precious Metals Tsumeb (Pty) Limited (DPM Tsumeb) is one of the EPZ companies located in Tsumeb, Namibia approximately 430 km north of the capital, Windhoek. The facility consists of two primary smelting furnaces, the old reverberatory furnace as well as the refurbished Ausmelt furnace and employs close to 600 people, including contractors, making it the highest employer within Namibia's EPZ programme. There have been complains within the Tsumeb area questioning the negative impacts this mining activities pose to the employees as well as to local peoples health. However, DPM have conducted sufficient research to ensure that their smelting productions does not pose environmental health and safety hazards by investing into state of the art machinery's and equipment's. The smelter is one of only a few in the world which is able to treat arsenic and lead bearing copper concentrates and is therefore able to conclude long term favourable contracts to treat such concentrates (Dundee Precious Metals, 2014).

In the manufacturing sector, Fatima Plastics, situated right on the edge of Namibia's Angolan border is driving growth with a relentless emphasis on quality. Fatima Plastics, a locally owned manufacturing company, manufacturing of plastic bags, tables, chairs, vegetable rakes and kitchens wares. Today, 115 locals are employed full time, and of the 25 expatriates who were brought in in 2002 at its establishment, only seven are remaining and much of the managerial positions are filled by locals.

A diamond cutting and polishing company, Nu diamond started operations in February 2008, and opened its second cutting and polishing factory in 2014, which employs 60 permanent

employees. The opening of the new factory meant that 140 permanent jobs had been created. In the past, Namibian diamonds were mined and exported to other countries in raw form, meaning that Namibia have been creating employment opportunities in other countries. This situation have previously negatively affected Namibia's diamond industry in particular, and its socio-economic development in general.

The long-term benefit of generated employment may significantly decline if workers are exposed to health risks, or other negative factors (LaRRI, 2000). This is evident in Namibia, in the case of Ramatex where there were cases of wages disputes and poor working conditions among other factors which contributed to Ramtex closing.

The study found that most of the companies enjoying EPZ status have health and safety programs in place. Skorpion Zinc Mine (SZM) has an excellent safety record as there have been zero fatalities since its operations commenced in 2001. Being in the mining industry, Skorpion Zinc Mine (Namzincs) safety performance has been recognised not only in Namibia but also globally, and many awards have been achieved. On top of its achievements on Health and Safety, SZM Mine also run HIV/AIDS campaigns, which offer education, prevention, treatment and awareness of HIV/AIDS to assist employees and families affected by the disease.

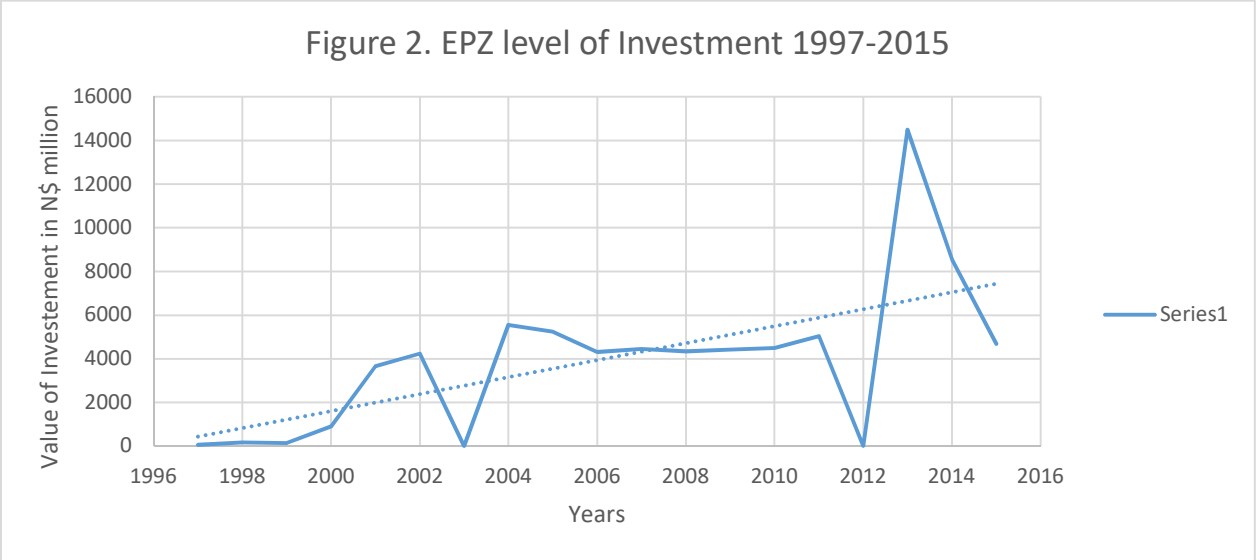
LaRRI's study which was published in March 2000 found that EPZs had fallen far short of the government's expectations of creating 25,000 jobs and facilitating skills and technology transfer needed to kick-start manufacturing industries in the country. By the end of 1999, the EPZs had created very few jobs although millions of dollars had been spent on promoting the policy and on developing infrastructure with public funds. Namibian government had set

itself the target of 25,000 EPZ jobs by the end of 1999 and LaRRI's study showed that only 400 jobs had been created.

4.2.2. Foreign exchange earnings

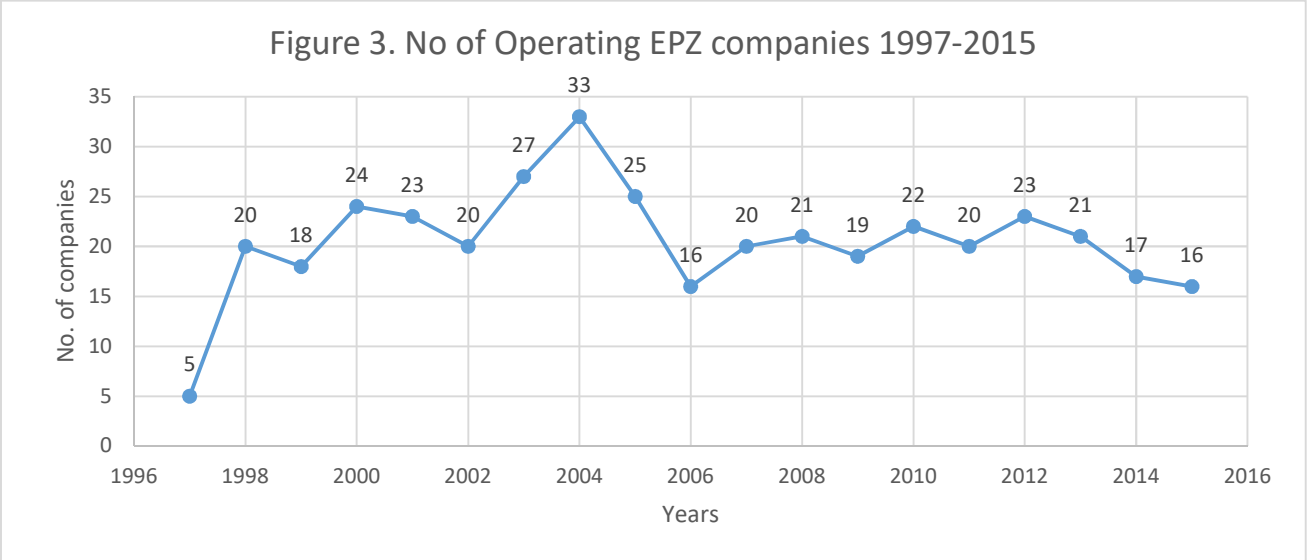
4.2.2.1. EPZ capital injection in the economy

The domestic economy has made N$ 1,61 billion from the procurement of services and goods from Export Processing Zone operations during the 2012/2013 financial year, the Offshore Development Company annual report has revealed. According to the report that financial year tabled by Minister of Trade and Industry Hon. Immanuel Ngatjizeko in parliament in June 2015, the ODC generated a 22,9 % increase in revenue from N$1,24 billion in 2013 to N$1,61 billion in 2013 in the form of the local procurement of goods and services by EPZ enterprises such as transport and logistics, utilities, Information Technology (IT), auditing, cleaning as well as security and insurance. The report further states that during 2014, the total accumulative investment level in the EPZ more than doubled from N$5.0 billion to N$12,7 billion mainly due to the realisation of an investment by Areva processing, and reinvestments by Namzinc and Dundee Precious Metals Tsumeb (previously Namibia Customs Smelters).



Source: *Offshore Development Company (2015)*

By 2013, the total investment level of EPZ in Namibia has increased by 13.4% or to N$ 14.4 billion from N$ 12.7 in 2012. Dundee Precious Metals Tsumeb mainly contributed to this increase to the reinvestment in the expansion and modernization of their copper smelting operations as well as in setting an acid plant of which construction was completed in 2015. Dundee Precious Metals "acid plant will capture Sulphur dioxide generated by the smelter and this will be converted into sulphuric acid, which will become a by-product, which will therefore make the company to comply with good manufacturing practice and generally accepted worldwide environmental and health standards". The EPZ investment was on a drastically decrease around 2002 and 2003, and this was caused by Ramatex closure. This had a very negative effect on the economy, causing unemployment to rise as well.



Source: Offshore Development Company (2015)

Figure 3 above depicts that the EPZ progamme in Namibia have made progressive effort in attracting companies. There was on about EPZ operating companies in Namibia in 1997, which increased to 20 companies within a year. The highest number of companies operating under the EPZ programme was recorded in 2004, and the lowest no of EPZ operating in Namibia was in the year 2006 and 2015 respectively. This clearly indicates that EPZ companies are decreasing, hence, government intervention is required to make the EPZ programme more lucrative and attract more investors. Despite the global economic downturn, one can see that the investment level in Namibia's EPZ has showed a slightly increase between 2001 and 2013 (Figure 4). This boosted the economy foreign earnings as most of this investment came in the form of Foreign Direct Investment (FDI). More foreign currency was injected in the host country, hence strengthening the local currency.

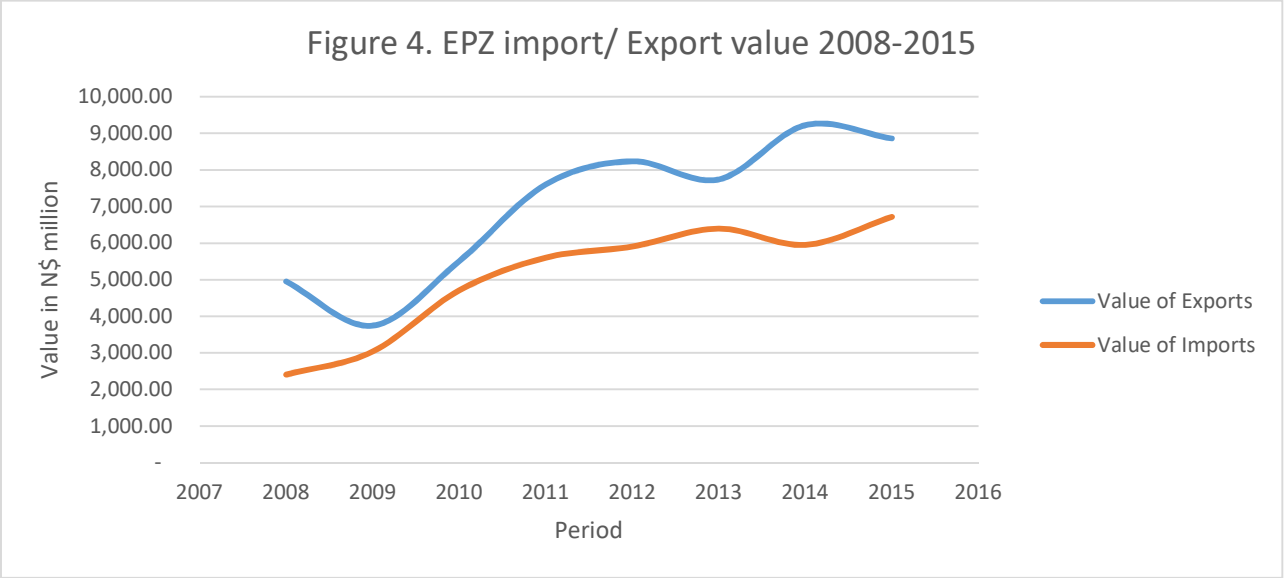
4.2.2.2. Value of EPZ Export/ Imports

Through the EPZ programme, Namibia has been importing and exporting products and engaging in diverse economic activities. These exports include automotive parts, marine ropes and cordages, household plastic products, abrasive products, electronic equipment's (closed), minerals exporting such as zinc and copper refinery, as well as diamonds and granites. EPZ companies have also imported products for production purposes e.g., mining materials and equipment's, and other raw material. Exports from the EPZ were recorded at N$ 8,5 billion, compared to N$ 7,5 billion in 2011, which was an increase of 7,9%. Total imports increased from N$ 5,6 billion in 2011 to N$5,9 billion in 2012.

Table 2: Export and Imports value of Namibia's EPZ Enterprise 2008-2015

Period	Value of Exports	Value of Imports	Surplus
2015	8,861.00	6,719.00	**2,142.00**
2014	9,225.00	5,952.00	**3,273.00**
2013	7,742.00	6,396.00	**1,346.00**
2012	8,237.00	5,908.00	**2,329.00**
2011	7,604.00	5,603.00	**2,001.00**
2010	5,509.00	4,709.00	**800.00**
2009	3,746.00	3,035.00	**711.00**
2008	4,950.00	2,404.00	**2,546.00**
Total	**55,874.00**	**40,726.00**	**15,148.00**

Source: Offshore Development Company (2015)



Source: Offshore Development Company (2015)

Looking at the composition in Figure 4, the value exports from EPZ companies decreased to N$ 8.8 billion in 2015 compare to N$ 9.2 billion in 2014. On the contrary, the total imports has increased from N$ 5.9 billion in 2014 to N$ 6.7 in 2015 (figure 5). On average, EPZ companies exported goods worth N$ 2.2 billion per quarter. Most the exported goods came from the mining processing sector. Meanwhile, EPZ companies have imported on average N$ 1.7 billion worth of production inputs per quarter of which the highest figure came from the 1st quarter. During 2015, the total trade in the EPZ was valued at N$ 15.5 billion.

4.2.3. Knowledge spillover and technology transfer

Transfer of skills is another benefit often cited to justify and encourage the introduction of EPZs. In most cases, EPZ workers not only in Namibia are engaged in low skill activities, and knowledge transfer merely occurs through on the job training (Kelleher, 1992). According to ODC Report, 11 of the 19 companies enjoying EPZ status as at December 2015 are involved in diamond polishing & processing. The diamond processing and polishing

sectors is highly capital intensive, with only a few employees needed to oversee these machines. This sector employs less people than Dundee Processing Metals alone, as most senior position are occupied by expatriates from the country of origin.

4.2.4. Backward linkages

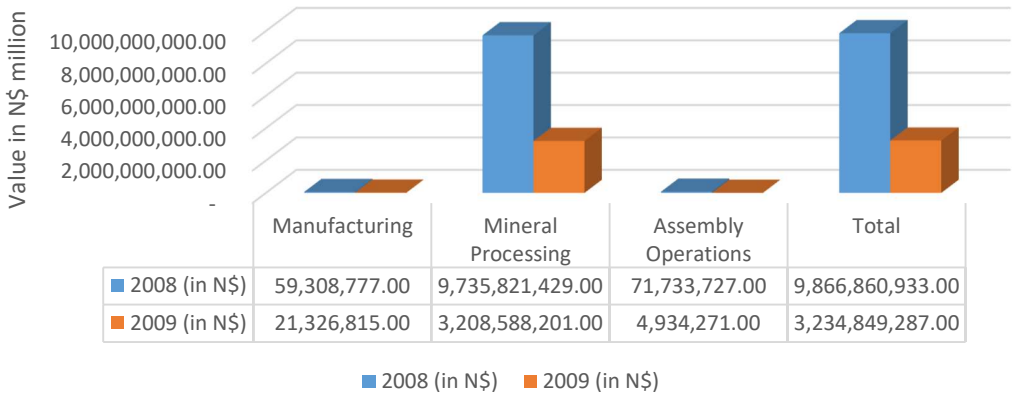
The high degree of imported content in the EPZ goods (figure 4) is an indication that backward linkages with the host economy remain insignificant. EPZ companies in Namibia are allowed to freely choose inputs at the best price or quality available from the world market (LaRRI, 2000). It is therefore hardly surprising that few backward linkages have materialized between EPZ companies and local firms in Namibia. Majority of the EPZ companies are in the diamond and granite polishing sector, which imports their machines and input materials from outside Namibia, usually from Asia, Europe or the USA. Some companies defend themselves and indicate that some of the machinery and equipment are not available on the local market. The packaging, and cleaning materials or cleaning of buildings, as well as the utilization of Namibian transport services e.g., Harbor, Roads, Railways and Airports, are deemed to be the only link between EPZ companies and Namibia's economy.

4.2.5. Namibia's EPZ production level

Productions of the EPZ companies in the key sectors, namely manufacturing, mineral processing, and vehicle assembling has been decreasing in the past two years. This decrease is due to some EPZ companies that experienced a decrease in their production during the year 2015 such as Transvehco, Schachter & Namdar, Namcot diamonds and Hard Stone Processing. The bulk of the production within the EPZ programme in 2015 came from the mineral processing sector, particularly the production of blister copper and refine zinc.

Fatima plastic in Oshikango also had a good production year. Fatima only began expanding in 2005 by increasing the product range. At first they were only concentrating on manufacturing plastic bags but now they make buckets, basins, plastic tables and chairs. "Each month the company produce 100 tonnes of plastic material," says Managing Director Muhammad Saeed.

Figure 5. EPZ enterprises production value be sector



	Manufacturing	Mineral Processing	Assembly Operations	Total
2008 (in N$)	59,308,777.00	9,735,821,429.00	71,733,727.00	9,866,860,933.00
2009 (in N$)	21,326,815.00	3,208,588,201.00	4,934,271.00	3,234,849,287.00

Source: Offshore Development Company (2015)

Figure 5 illustrate that the production of EPZ companies across the 3 sectors have declined in 2009 compared to 2008 and mainly attributed to the global financial crisis that affected trading activities of exporters worldwide and EPZ exporters in Namibia were not exception. The mineral processing sector continues to be the leading sector with the highest production value, followed by the manufacturing sector and last but not least the Assembly operations.

4.2.6. Overview of EPZ Incentives in Namibia

Namibia has an EPZ regime that offers favourable conditions for companies wishing to manufacture and export products for regional and international markets. By the end of 2013,

there were 20 EPZ companies in operation, most of which were closely linked to mineral processing, including Namzinc (which produces Special High Grade zinc at Skorpion zinc mine), Namibia Custom Smelters (which produces blister copper from imported copper concentrates) and a variety of diamond cutting and polishing operations, which cut and polish locally and internationally sourced rough diamonds (Investment Climate Statement 2015). The increase in the number of EPZ companies have surely been triggered by the different incentives offered, as well as other economic and political factors such as infrastructure and reliable access to supporting services. It is also very crucial that the government of Namibia can come up with more favourable incentives to increase the level of diversification given that the EPZ is mainly dominated by companies involved in mineral processing.

The government of Namibia introduced incentives for manufacturing companies. The incentives offered to this companies concerns take two critical forms, namely; tax incentives provided for, under the Income Tax Act (Act No. 24 of 1981) as amended by Acts No. 10 of 1993, No.17 of 1994, and No. 12 of 1996 on the one hand. There are also non-tax incentives offered to EPZ companies. This incentives (Tax and non-tax incentives) apply equally to local and foreign enterprises registered as manufactures and provided for both existing and potential investors operating in the manufacturing sector. One of the key objective for providing incentives to registered manufactures is to give Namibian based entrepreneurs who invest in the manufacture and export of this goods a competitive advantage. Table 3 summarises the set of incentives offered to manufactures and exported of goods manufactured in Namibia.

Table 3: Special Incentives for Manufacturers and Exporters in Namibia

	Registered Manufactures	Exporters of Manufactured Goods	Export Processing Zones Enterprised
Eligibility and Registration	Enterprises engaged in manufacturing. Application to the ministry of Industrialization, Trade and SME Development and approved by the Ministry of Finance.	Enterprises that export manufactured goods whether produced in Namibia or not. Application and approval by the Ministry of Finance	Enterprise engaged in manufacturing, assembly, packaging or break-bulk and exporting mainly to out of SACU markets. Application to the EPZ committee through the ODC or EPZMC
Corporate Tax	Set at a rate of 18 % for a period of 10 years, where after it will revert to general rate of 34 %.	80% allowance on income derived from exporting manufactured goods.	Exempt
VAT	Exemption on purchase and import of manufacturing machinery and equipment's.	Normal treatment	Exempt
Stamp and Transfer duty	Normal Treatment.	Normal treatment	Exempt
Establishment Tax package	Negotiable rates and terms by special tax package.	Not eligible	Not eligible
Special Building Allowance	Factory buildings written off at 20 % in the first year and balance at 8 % for 10 years.	Not eligible	Not eligible
Transport Allowance	Allowance for land-based transportation by road or rail of 25 % deduction from total coast.	Not eligible	Not eligible
Export Promotion Allowance	Additional deduction from taxable income of 25 %.	Not eligible	Not eligible
Incentive for Training	Additional deduction from taxable income of between 25 % and 75 %.	Not eligible	Substantial, issued by government on implementation of approved training programme
Industrial Studies	Available at 50 % of cost.	Not eligible	Not eligible
Cash Grants	50 % of direct cost of approved export promotion activities.	Not eligible	Not eligible

Source: Namibia Ministry of Finance (2016)

This incentives are mainly aimed at stimulating manufacturing, attracting foreign investment to Namibia and promoting exports. To take advantage of the incentives, companies must be registered with the Ministry of Industrialization, Trade and SME Development and the Ministry of Finance. Tax and non-tax incentives are accessible to both existing and new manufacturers. The MITSD has produced a brochure on Special Incentives for Manufacturers and Exporters which is available from the Namibia Investment Centre.

4.2.7. EPZ Locations in Namibia

EPZ enterprises are free to establish themselves anywhere in the country. An EPZ company can set up a single factory enterprise at any clearly demarcated location of choice. Where an industrial zone or park has been developed, interested investors may choose to locate in such industrial zone or park to take advantage of the affordable factory shells or warehouses that have been constructed.

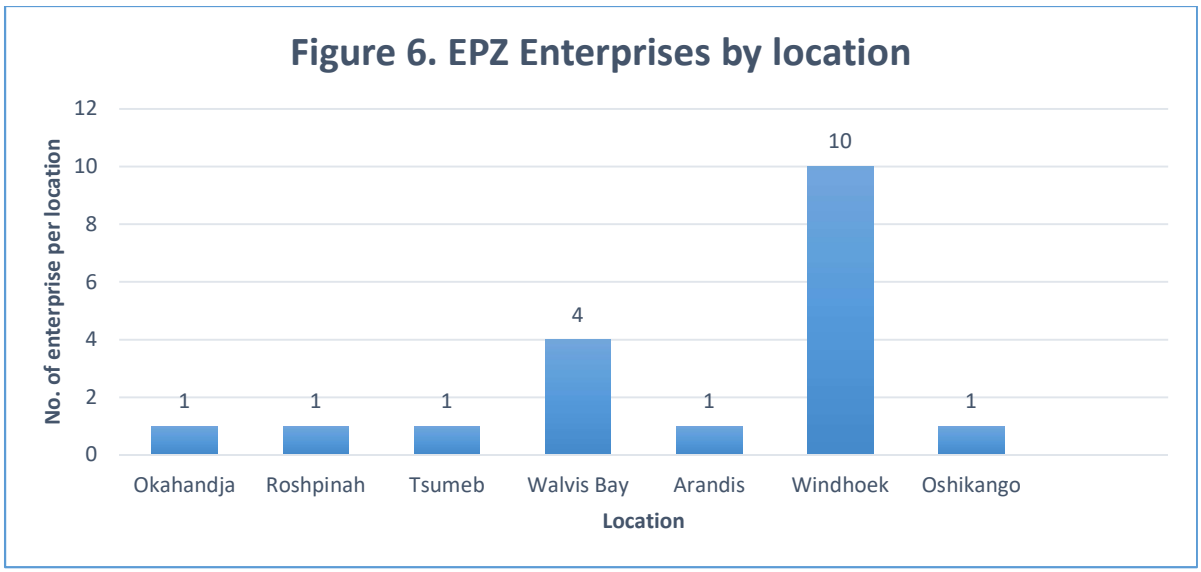
Most of the EPZ enterprise in Namibia have taken advantage of this granted freedom and have shown interest of setting up as single factory operations at locations of their choice anywhere in the country. It is evident that most registered EPZ enterprises have set up factory mostly in Windhoek followed by Walvis Bay (see Table 4 below). Some of the other locations are Tsumeb, Okahandja and Roshpinah. Investor are deemed to preferred locating in major established towns, such as Windhoek and Walvis Bay mainly due to the availability, reliability and quality of business support service.

Location	Company Name	Economic Activity	No. of enterprsies per location
Okahandja	Namgem	Diamond cutting and polishing	1
Roshpinah	Namzinc	Zinc refinery	1
Tsumeb	Namibia Custom Smelter	Processing of blister copper and arsenic trioxide	1
Walvis Bay	Namibia Press and Tools International	Manufacturing of motor vehicle parts	
	Transvehco	Assembling and refurbishing of motor vehicle	4
	Marines Ropes International	Manufacture of ropes and associated products	
	Mars Investment Holdings	Diamond cutting and polishing	
Arandis	Roach Investments	Cutting and grinding og granite blocks, resin & polishing of granite slabs, manufacturing/ production of Riven stone & Antique rock	1
Windhoek	Borriess Marketing Systems	Diamond cutting and polishing	
	Namcot Diamonds	Diamond cutting and polishing	
	Hard Stone Processing	Diamond cutting and polishing	
	Lev Leviev Diamond (LLD) Namibia	Diamond cutting and polishing	
	Nu Diamons	Diamond cutting and polishing	10
	JDK Namibia	Diamond cutting and polishing	

	Laurelton - Reign Diamonds	Diamond cutting and polishing	
	Almod / Duiker Investments	Diamond cutting and polishing	
	Trau Bros Diamond Namibia	Diamond cutting and polishing	
	Schachter and Namdar Namibia	Diamond cutting and polishing	
Oshikango	Fatima Plastics	Manufacture of plastic bags, tables, chairs, vegetables rakes and kitche ware	1
Total			19

Table 4: Operational EPZ enterprise by location and economic activity 2009

Source : *Offshore Development Company (2015)*



Source: *Offshore Development Company (2015)*

Most EPZ enterprise enjoy or prefer setting up their business in Windhoek for various reasons as stipulated in Figure 6 above. This factors includes transportation cost and railway network, availability of raw materials to mention a few. Table 4 also illustrates that most of the diamond cutting and polishing enterprises are located in Windhoek. This among other is due to the airport (Hosea Kutako Airport) which makes it quite safer in case of exporting this diamonds. Dundee & Namzinc are located in Tsumeb and Rosh-pinah as they are concentrated in mining, hence setting up factory close to their raw materials. Fatima Plastic is located far north, with ambitions

of penetrating the nearby market of Angola, DRC and Zambia as outlined by the company's chairman Mr. Aftab Alam.

4.3. Namibia's EPZ Scheme Review

"The Ministry of Trade and Industry has engaged a consultancy to review its existing Export EPZ scheme" (Abankwah, 2013). Minister of Trade and Industry Hon. Calle Schlettwein said that the study aimed to assess whether the scheme was sustainable and promoted the country's drive to industrialisation. Hon. Calle Schlettwein further confirmed that the consultants have now completed the study and the next step is to consider the recommendations made (Abankwah, 2013). He does, however, say that the study found the EPZ scheme (in its current form) was unsustainable because the income the country had to forego was higher than what investors put into it, as it didn't close the income gap; no wealth was created.

In his interview with Windhoek Observer, Phillip Namundjebo the Acting CEO of the ODC says that the country has 20 operational enterprises with EPZ status, creating employment of approximately 2,500 direct jobs. "Although the Namibian economic growth rate consistently performs above world economic growth rates, the EPZ has not met the aspirations of the Namibian Government with respect to the job creation" (Abankwah, 2013). Philipp Namundjebo further emphasised that "the EPZ regime has certainly attracted foreign investments, but unfortunately has not been able to stir economic growth, develop an industrial or manufacturing base with knowledge and skills transfer through the location of extensive value chains in many industries". Hence, it's a matter of urgency for the policy to be revisited and develop a more effective strategic approach towards sustainable economic growth.

Hon. Calle Schlettwein says that of the 20 companies that benefitted from EPZ status by the year 2013, most of them were in the diamond cutting business and a few in the mining sector. The minister says that the problem with this is that the extractive industry is highly mechanised, so it does not create many jobs. If you offer incentives for job creation, the mining sector is the wrong industry to target. The main aim of the EPZ schemes was actually the manufacturing sector, which didn't take off. Hence, the Namibia's EPZ regime needs to be restructured to make sure that it does not divert away from its main purpose. Manufacturing remains a key component of job creation within developing countries compared to other sectors such as diamond polishing which are mostly capital intensive.

Hon. Calle Schlettwein in his interview with Windhoek Observer further explains that when Government created the EPZ scheme, it had the right intentions and it structured the policy framework correctly, but, 15-20 years later, it is not well aligned to Vision 2030, NDP4, or the Growth at Home strategy, hence it doesn't deliver". He notes that the principle of economic zones is a good one, but the country has to pursue it with a different criteria. One of the changes the minister would like to see within the scope of the reviews schemes is that incentives measured must be performance based (Abankwah, 2013). The suggested performance based approach will be good for the economy as it will increase competition within the different sector markets. It will also push for increased production as companies within the EPZ will try to outperform each other in order to benefit from the performance based incentives.

It has been noted that the implementation or facilitation of industrial initiatives is not new in Namibia, as demonstrated by years of industrialisation pursuit (Ministry of Trade and Industry, 2014). Clearly, a defined approach in the form of an agreed industrial policy implementation framework that outlines the execution path towards industrialisation has been a missing element

that would ensure accelerated industrialisation and more importantly enable sustainable economic growth" (Ministry of Trade and Industry, 2014). The defined approach should be used as the mechanism tool to be used and followed by EPZ stakeholder. The approach will be more effective if it outlines everything, as well as indicate how this framework should be executed in order to yield the desired results as far as EPZ in Namibia is concerned.

The MTI have observed that a very narrow industrial base with heavy reliance on the primary sector and a lack of skilled labour constrains Namibia's competitiveness. The ministry further observed that, where local industries do exist, they face a number of supply side constraints, including a lack of proper production technology and technical know-how that they require for cost-effective and competitive productivity (Abankwah, 2013). The programme review is urged to come up with a more cost effective approach on how backward linkages as well as knowledge and skills transfer can be fully utilised.

Hon. Calle Schlettwein also added that the performance and growth in the manufacturing sector requires and is highly dependent on improved access to the country's raw materials (such as minerals, agricultural production, fisheries) that the sector needs for processing into semi and finished goods. Namibia's diamond polishing companies experienced a downfall in their production for the year 2015, as there was a decrease in the supply of raw diamonds. This had an impact as some diamond cutting and polishing companies had no choice but to retrench some of their workers. A refined EPZ policy can be developed to protect both employer as well as employees in scenarios like this. For example, diamond cutting and polishing companies should be given first priority to purchase raw diamonds mined in Namibia. By doing this, more jobs are likely to be created, the diamond industry will be less risky as they have first choice opportunity to purchase rough diamonds.

It is very critical to ensure that the reviewed EPZ programmes are flexible, including policy flexibility to import additional raw materials to complement and augment local production capacity in certain subsectors, as well as access to both domestic and outside markets. The minister during his interview with Windhoek Observer, further noted that Namibia strived to become an industrialised economy by the year 2030 and in order to achieve the target it had to improve delivery rates in terms of policy implementation significantly. Thus, it is very key that all procedures in regards to the policy review should be clear to avoid any sort of delay in its implementation. Bureaucracy affects service delivery, hence, all stakeholders are argued to ensure good service delivery by finishing all tasks within the given period. It will be of no use if the country spend a lot of time on restructuring the EPZ regime, and at the same time fail to implement it affectively.

4.4. Challenges facing EPZ companies operating in Namibia

The EPZ regime, which is focused on export- oriented manufacturing and operational companies, has highlighted the general lack of skilled labour in various sectors, insufficient rough diamond supply for cutting and polishing factories and the rising costs of doing business particularly due to high energy, transport and utility expenses in the country as challenges to the industry. The lack of affordable business and industrial premises has been identified as one of the main constraints to the successful development and growth of the private sector in Namibia.

4.4.1. Lack of Skilled Labour

Most EPZ companies specialise in manufacturing and mining processing products, hence, bringing the need to have skilled labours in certain areas key for production. Fatima Plastics a company established in 2002 when Helao Nafidi was still a village settlement had to bring in 25

expatriates from Pakistan. This expatriates had to be brought in due to the lack of sufficient skilled labour. Today, of the 25 expatriates only seven are remaining and much of the managerial positions are filled by locals. Fatima employs 115 locals on full time basis. The Namibia government have urged EPZ companies to concentrate on labour intensive approach, to create job opportunities and ensure that there are continues training programme to benefit for the local employees.

4.4.2. Insufficient rough diamond supply

The global diamond industry is beset by problems that have seen prices fall and production cut in most countries, including the Namibian market. The Namibia Diamond Trading Company (NDTC), a 50/50 venture between the government and De Beers, supplies rough diamonds to local cutting factories. By April 2015, the NDTC which supplies rough diamonds for cutting and polishing to local companies, was expected to provide diamonds with a value of N$3 billion to the local industry. However, the supply has been adjusted downward because of the decline in diamond production by Namdeb, the major diamond producer. The Chief Executive Officer of NDTC, Shihaleni Ndjaba, said Namdeb's decision to cut back production has “tremendously affected their export of diamonds which is at a low level at the moment and it also affected their daily operations”. The supply of diamonds has been reduced, so the daily operations in polishing companies have scaled down. Ndjaba told Nampa that the value-adding industry is hard hit by the reduced supply of rough diamonds and that NDTC sight holders have already cut 378 jobs since last year. In October 2015, companies in the diamond downstream economy provided around 1 161 jobs, but have since reduced their workforce to 783 (Yang, 2015).

There are 11 NDTC sight holders, or authorised bulk buyers of rough diamonds. Lev Leviev Diamonds, one of the bigger diamond polishing factories, shed 77 jobs in 2015.

During the year 2015 some companies have put their workers on paid leave while they wait for the situation to normalise. Ndjaba further emphasized in his interview with Nampa that 'the industry is monitoring the situation,' adding that no company has indicated that it wants to close shop yet. "Time is running out, the industry is about to collapse," said Burhan Seber, managing director of a Windhoek-based factory, Hardstone Processing, in an interview.

Despite the lack of rough diamonds in Namibia being a concern, companies have long-term commitments to operate in Namibia. They have invested a lot of money in equipment and capacity building. So to close down will be the last option. The NDTC has 100 employees and does not intend retrenching its workers. Instead of retrenching workers, we are currently carrying out measures to adjust ourselves with the situation, by way of not filling the current vacancies and to call for voluntary separation (Namibia Diamond Trading Company, 2015). The global downfall of diamond prices in the world have affected Namibia as well during 2015. Work came to a standstill in some of the diamond polishing companies, which largely had an impact on the socio economic growth of the country. The impact negatively affected employees as they were not certain about their job security, given that operations close and they are most likely to be retrenched.

4.4.3. High energy, Transport and Utility expenses

Expensive input costs, especially on electricity, transport and high harbour charges, the access and cost of technology within sub-sectors of the manufacturing sector are some of the factors which limited the growth of the Namibian manufacturing sector (Bank of Namibia, 2007). Namibia is currently faced with a water crisis which will hamper our manufacturing industry if not dealt with on time. Manufacturing and mining requires sufficient availability of water and electricity at all times.

In his 2013 report, Fatima Plastics company chairman Aftab Alam emphasised that Electricity in the area of Oshikango is expensive. There are no special tariffs for manufacturers on electricity despite their contribution to the economy. Aftab applauds the Namibia government for the support it gives in growing the manufacturing industry by giving them a priority, but there is still a need to protect the local manufacturer against this high electricity levies. Investors have preference for locating in major towns, such as Windhoek and Walvis Bay mainly due to the availability, reliability and quality of business support services and infrastructure which might come off cheaper compared to establishing a company in a small town or rural area.

4.4.4. Lack of affordable business and industrial premises

Lack of affordable business and industrial premises has been identified as one of the main constraints to the successful development and growth of the micro, SME sector in Namibia. To address this pandemic, ODC has designed a Sites and Premises programme to facilitate this constraint. The programme involves the construction of modern business premises, industrial parks and technology demonstration centers providing market sites and space for light manufacturing, trading and office operations as well as access to productive machinery and technology (Namibia Investment Centre, 2014).

The aim of this business sites and premise is merely to accommodate to encourage business activities to reduce unemployment, and eradicate poverty amongst society. A plan was launched to purchase land and buildings (premises) in order to provide industrial facilities for either lease or sale to both domestic and foreign investors and local entrepreneurs. Thus far, industrial parks have been constructed at the following different centers in Namibia (see table below)

Table 5: Industrial, Business Sites and Premises in Namibia

SME Business Parks		Common Facilities				Export-Orientated Business Parks		Multi-purpose Industrial parks	
Region	Town	Region	Town	Business activities		Region	Town	Region	Town
Erongo Region	Henties Bay	Erongo	Karibib	Gemtsone cutting & Polishing centre		Ohangwena	Oshikango	Khomas	Prosperita
Erongo Region	Karibib	Karas	Keetmanshoop	Gemtsone cutting & Polishing centre		Zambezi	Katima Mulili	Oshana	Ondangwa
Erongo Region	Usakos	Oshana	Ondangwa	Automotive centre & Plastic centres		Zambezi	Katwitwi		
Hardap	Mariental	Otjizondjupa	Ovitoto	Garment centre					
Karas	Keemanshoop	Kavango East	Rundu	Woodwork workshop					
Karas	Luderitz	Erongo	Usakos	Miners equipment centres					
Kavango East	Rundu								
Kavango West	Nkerunkuru								
Kunene	Opuwo								
Kunene	Khorixas								
Ohangwena	Eenhana								
Ohangwena	Ohangwena								
Oshikoto	Omuthiya								
Omaheke	Gobabis								
Omaheke	Otjinene								
Omusati	Okahao								
Omusati	Outapi								
Omusati	Oshikuku								
Otjozondjupa	Otjiwarongo								
Total	19	6				3		2	

Source: Namibia Investment Centre (2014)

A total of 35 business sites and premises have been constructed and are on lease under the Sites and Premises development programme. The aim of this sites is to accommodate SME, as well as EPZ companies in Namibia. Looking at the table 5 above, the SME business parks are situated in all regions across the country. The Common facilities accommodate some of the EPZ companies with in the mineral processing sectors, manufacturing as well as the assembly operation center.

4.5. Overview of the Walvis Bay Export Processing Zone Management Company

4.5.1. Introduction

"Since independence, the Namibian Government has pursued free-market economic principles designed to promote commercial development and job creation to bring disadvantaged Namibians into the economic mainstream" (MITSD, 2015, p. 10). Since the inception of the

Walvis Bay Export Processing Zone Management Company (WBEPZMC) in 1996, the idea of expanding the industrial base of Walvis Bay has rapidly gained momentum and the zone is growing fast into one of the world's newest EPZ success stories (WBEPZMC, 2015).

Entrepreneurs from around the world have applied for participation in the programme. Today, some 20 companies, from Africa, Asia, Europe and North America are fully operational and making use of the EPZ incentives in Namibia which provides them with a better competitive advantage, compared to other countries. The established companies in the Walvis Bay EPZ are involved in the manufacturing of plastic pallets and products, automotive parts for VW and Audi vehicles, clothing, fishing related accessories and diamond cutting and polishing (WBEPZMC, 2015).

4.5.2. WBEPZMC Objectives

The WBEPZMC's key purpose is to market Walvis Bay as the safe destination for FDI as a means of fast tracking the industrialisation programme of the Namibian government. According to MITSD (2015), the following objectives were set for the WBEPZMC;

- The creation of employment for the people of Walvis Bay in particular and the people of Namibia in general, provided that such employment shall be beneficial to both the investor/enterprise and the labour force without exploitation of either of these parties.
- The injection of Foreign Direct Investment (FDI) into the local economy of Walvis Bay and the national economy of Namibia in order to increase industrial activities.
- The promotion and development of human resources and skills.
- The promotion of direct and indirect linkages to the local business sector and supportive industries creating employment and growth outside the zone.

- To optimize dividends for the shareholders of the EPZ Management Company.

All this objectives have been set up with the main purpose of increasing the towns' economic growth. Zones of this nature are very important, as they can be used to be driving tools to eradicate poverty within certain society, or the whole country at large.

4.5.3. Walvis Bay Zone Terms and Conditions

One of the fundamental objectives of the Walvis Bay Zone (WBZ) is to develop the Namibian economy. Although an investor with EPZ status is afforded a wide spectrum of freedoms the following criteria are used to determine approval of applications by the WBEPZMC:

- That the investor will employ Namibian labour, except where expertise knowledge is not available locally.
- That the manufacturing operations of the business not be of harmful nature to the environment or human inhabitants.
- That the investor does not sell his/her product to the local Namibian and member's states of the SACU trade agreement (South Africa, Swaziland, Lesotho) market.

4.5.4. WBEPZMC Services

"The WBEPZMC provides a comprehensive range of services to facilitate a hassle-free start-up in the zone" (WBEPZMC, 2015). Apart from the construction, leasing, acquisition of infrastructure and operational expenditure, the WBEPZMC provides all other services to investors free of charge:

- Handling of investors' applications for EPZ status.

- Facilitate in acquiring work permits and visas.
- Erecting custom built factories to specific need of EPZ enterprises.
- Leasing of serviced land to EPZ enterprises.
- Assisting investors in the selection of site/factory facilities.
- Serving as link between investors and the nation's power centres.
- Facilitate with personal recruitment.

This will serve very well for investors as most of the administration in regards to registration and all required documents is done by the WBEPZMC. This reduces the cost factor of these companies within the zone.

4.5.5. WBEPZMC Target Industries

The Walvis Bay EPZ does not restrict investors to an industrial sector, as is typically found in similar zones. Investors are free to engage in any manufacturing and value addition processes of their choice, anywhere in Walvis Bay. The Walvis Bay EPZ is looking for investors to set up production plants in the following priority industries:

- Textile and garment industries.
- Footware, bags & leather or imitation leather products.
- Manufacturing & assembling of electronic equipment.
- Processing industrial products, food stuff and beverages.
- Industrial plastic (without chemical materials).
- Assembling or producing electrical household products.

4.5.6. Operational companies within the Walvis Bay Zone

Since the establishment of the WBEPZMC, the following companies were granted EPZ licenses and are operating in the Walvis Bay zone. Companies already operational in the EPZ are involved in:

- Automotive parts for motor vehicles.
- Assembly of vehicles.
- Granite processing.

4.5.6.1. Namibia Press and Tools International

Wholly owned by EDAG Group of Germany. Namibia Press and Tools International (NPT) manufactures engine parts for Audi, Volkswagen, Renault and Opel. Currently all its products are exported to Germany for distribution to clients worldwide. The company passed on skills and German know-how to a highly motivated Namibian.

4.5.6.2. Transvecho

Transvecho is involved in the importation of complete knocked down vehicle kits from China, assemble and refurbish by way of adding value to them for export. Their export market is mainly the non-SACU SADC member states.

4.5.6.3. Roach Investments

Roach Investments cuts and polished granite marble and other stone products for export purposes. High quality finished marble is exported mainly to markets in the USA and Europe. According to Offshore Development Company (2014) “Granite is mined outside Walvis Bay, and has been described as one of the most beautifully patterned granite in Africa”. Africa

Range's products include (but are not limited to): Slabs for counter tops and vanities, Floor tiles, Landscaping products, Paving, Tumbled desert rock, Tumbled pebbles, Copings, Tombstone slabs, Various claddings, and other special designed products. Roach Investment Managing Director Jaco Mulder empasized that "Namibia share in the N$ 60 million a year that come from international buyers even though the granite is not being traded locally" (The Namibian, 2007). Mr. Jaco Mulder further illustrates that they have also increased workers skills through training, hence creating competitiveness and increased productivity. Forty Namibian were employed at the plant after its inception in 2007, but the numbers have increase now given the plants expansion due to an increase in the demand of granite.

Roach Investment has surpassed its mission to supply top quality natural stone / granite and to embrace the growing "green movement" trend that ensures better quarrying practices and more responsible social & environmental responsibilities towards precious mother earth. A world class, modern facility strategically located at our quarries in Namibia ensures uninterrupted supply of Dimensional granite Blocks and polished granite Slabs using the latest modern equipment in excavations, manufacturing & processing (WBEPZMC, 2015)

4.5.7. Walvis Bay Zones comparative advantage

Being favourably located close to the Port, there is a quick access to the quays where bulk cargo and containers are handled. Walvis Bay's strategic location reduces trans-shipment time, making it the cost effective choice. The Walvis Bay EPZ provides a politically stable, virtually crime-free environment, reliable work-force and lower production costs. Its incentives are of unlimited duration and apply equally to Namibian and foreign firms. The most attractive and lucractive

aspect of the EPZ is the tax-free and low overhead incentives it provides to investors (MITSD, 2015).

Walvis Bay can be reached by road, rail, air and sea. There are daily flights from Windhoek and from many regional cities such as Johannnesburg and Cape Town; regular freight services to Europe and USA; a road network that extends to landlocked countries in the southern African region. The country boasts one of the most advanced telecommunication infrastructures in Africa. Mobile phones function in most parts of Namibia including Walvis Bay. (Investor's Guide, 2014). This gives Walvis Bay a huge comparative advantage to other towns and countries which are landlocked. Availability of good infrastructure and supporting services plays a major role in these special zones, as it is one of the determinant factor investors look at when deciding on where they should set up their business.

Furthermore, companies are allowed to repatriate their capital and profits as well, while enjoying freedom from exchange controls and the holding of foreign currency accounts at local banks. "The labour force is young, reliable, trainable and in abundance, as well as having a banking and insurance facilities to cater for the needs of international investors" (WBEPZMC, 2015).

4.5.8. Market Access

With the Walvis Bay EPZ (WBEPZ) status, an investor enjoys the following advantages:

- Preferential market access to the European Union (EU), USA and other markets due to Namibia's signatory to the Lome Convention and Generalised System of Preferences (GSP)

- Access to the Common Market for Eastern and Southern Africa (COMESA) market of more than 300 million people
- Access to non SACU- SADC member countries (Angola, DRC, Zambia, Tanzania, Mauritius, Zimbabwe, Botswana and Mozambique)

The banking system of Namibia is highly developed and thus capable of providing fast and efficient services worldwide. An enterprise with WBEPZ status does not also:

- Pay corporate tax
- Pay import duties on imported inputs
- Pay VAT, stamp duties or transfer duties
- Have to lodge a bond with Customs & Excise in respect of manufacturing equipment to be used in the EPZ activities

All this favourable incentives played a major role in setting up the WBEPZ. The incentive were all offered with the main purpose of making Walvis Bay very much attractive in order to pursuit investors to come to the harbour town. This incentives might have been costly looking at the forgone government tax income which could have been earned. There have been critics about these incentives, as some people argue that WBEPZMC have not really being living up to its standard, hence, find no use why government should still offer these incentives (Interview with Mr. Rubben Amaambo of ODC).

CHAPTER FIVE

5. Conclusion and Recommendations

5.1. Conclusion

Attracting investment by means of EPZ is a widespread phenomenon among the countries of the world, both developed and developing countries. Countries in which EPZ have been successful have defended them arguing that they are necessary and beneficial. On the other hand, those against EPZs have stressed that they are costly based on poor economic growth, revenue losses of host countries, and the potential abuse of manufacturing and exporting incentives. It is illustrated in most cases that some of the companies enjoying EPZ status have been performing below average, hence, having minimal contribution to the overall host countries economy. However, there is general a lack of empirical evidence of costs and benefits of EPZs, while countries like Namibia have continued to extend their incentives.

This study aimed at assessing the impacts of EPZ on Namibia's social economic growth. In doing that, it sought answers to these questions: i) whether the EPZ concept have provided a sustainable path to economic development, poverty alleviation and job creation; ii) whether the EPZ concept really had an impact on domestic entrepreneurship; iii) what has been the impact of EPZ on the social welfare of Namibia, e.g. Spill over and skills transfer, and whether the EPZ programme have played a major role on the diversification of Namibia, looking at the possible revenue gains or losses by government. Relevant data was collected and thoroughly analysed to determine answers to these questions. The study has complemented to the limited small number of other studies from Namibia that attempted to assess or evaluate the impacts of EPZ. The main finding of the study is that Namibia did manage to attract investors through its lucrative EPZ

concept, but the benefit from those companies was quite minimal. Job creations set during the inception of the EPZ was not met, as most EPZ enterprise prefers cheap labour, and employing on temporary basis to cut cost or making use of capital intensive approach which reduces job opportunities for the locals. The study also came to realise that the EPZ concept did really contribute that much to local entrepreneurship. Most companies operating within the zone are foreign owned, and repatriate most of their profit to their country of origin. The integration between EPZ companies and the local economy have not been that effective, as most EPZ companies import most of their raw materials.

The availability of Natural resources, as well as Namibia's sound political stable climate have also been key in attracting FDI. The government have played a critical role by encouraging EPZ to export their products beyond SADC region, which have somehow yielded positive rewards for the economy. The relevance of the foreign exchange earnings is further confirmed by the total investments injected by the EPZ. The study has it, that the level of skills spillover is not happening in Namibia as it supposed to be. Most of the jobs availed to the locals employees is that of unskilled or semi-skilled individuals. Despite an incentive on training, most locals remain unskilled as senior position are reserved for expatriates.

Namibia is in dire need to bring about industrialisation and to create jobs. However, the 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 within the EPZ argued 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 and low wage strategy that underpins the EPZ programme. Sufficient efforts should also be but in place by the government to support industrial projects aimed at processing local materials as undertaken for example by the EPZ company NamGem. This is undoubtedly a key strategy to establish sustainable manufacturing industries in Namibia. Support for such industrial projects makes economic sense but does not require an EPZ programme. Targeted support programmes to encourage the processing of raw materials in Namibia are likely to be more beneficial and less costly than the EPZ programme.

The backward linkages also does not occur in most cases, as some EPZ enterprises prefer importing raw materials from abroad making it very difficult for the EPZ to interact with local producers. Despite the worldwide economic crisis, EPZ enterprises in Namibia remains productive, even the diamond industry which was hardly hit by the worldwide diamonds price fall. In terms of EPZ enterprise challenges, the programme which is focused on export- oriented manufacturing and operational companies, has highlighted the general lack of skilled labour in various sectors, insufficient rough diamond supply for cutting and polishing factories and the rising costs of doing business particularly due to high energy, transport and utility expenses in the country as challenges to the industry. The lack of affordable business and industrial premises has been identified as one of the main constraints to the successful development and growth of the private sector in Namibia.

Given the above findings, the researcher is of the view that there could be a need for the EPZ Act to be reviewed and set in such a way that it benefits all Namibians at large. The government should emphasised on developing a strategic approach on how to efficiently benefit from the incentives offered to EPZ enterprises.

5.2. Recommendations

This study has evaluated the potential of the EPZ concept in Namibia by means of identifying key variable which could enhance the growth of the manufacturing sector and thus the overall socio-economic growth rate of the Namibian economy to attain the objectives of Vision 2030 and the Harambee Prosperity Plan (HPP). The study identified factors which hinder the EPZ concept from achieving its full growth and production potential to contribute to the economy. Based on the finding of this study as discussed in the study, the following recommendations which the relevant Government Ministries and ODC, and Private Sector should consider are as follow:

5.2.1 Skilled labour development

The Ministry of Education in collaboration with Ministry of Labour, National Planning Commission (NPC), and ODC are recommended to develop strategic plans which will ensure that there is sufficient supply of skilled labour in the market. This training can be taken up at Vocational Training Centres. The shortage of skilled labour is one of the most critical constraints to economic growth in the manufacturing sector. EPZ enterprises are hesitant to hire unskilled labour, thus, only low paid unskilled positions are filled by Namibians in most cases. The slow pace of backward linkages and skills transfer within EPZ programmes are also caused by the low level of skills within the economy.

5.2.2 Invest in key infrastructure

Infrastructure offering is one of the success factors of many EPZ programmes in Africa. Therefore the Namibian government should facilitate investments in this key infrastructure. Facilitating investments in transport infrastructure can help reduce transport costs and integrate

EPZ into the global economy. Government should spend more on infrastructure development in smaller towns and rural areas as well. Roads and railway network should get proper rehabilitation to attract more investors. Most EPZ companies currently prefer to set up in Windhoek and Walvis Bay because of the improved infrastructure and supporting services in this towns.

5.2.3 Programme review

The EPZ scheme needs to be reviewed to ensure that there are no loopholes within the programme. In Namibia's case, the study recommends that the EPZ programme's strategies be revisited in order to re-align them with the country's current economic realities. This is imperative because the EPZs have not been achieving the goals for which they were originally established. Then Minister of Trade and Industry Hon. Calle Schlettwein stated that "of the 20 companies that benefitted from EPZ status, most of them were in the diamond cutting business and a few in the mining sector, even though the main aim of the EPZ programme was actually the manufacturing sector, which didn't take off (New Era, 2013)". Proper consultation with all EPZ stakeholders should be carried out, with the aim of developing a well-defined approach to increase EPZ contributions towards the country's socio-economic growth.

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