# COMPARATIVE OR COMPETITIVE ADVANTAGE OF EXPORT PROCESSING ZONES (EPZs): POLICY CHOICES AND STRATEGIES FOR NAMIBIA

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**Abstract**

The problem posed by industrialization and socio-economic challenges put many developing countries in an awkward position. This situation further created a dilemma when it comes to public policy formulation and implementation.

In an attempt to attract and at the same time, to retain direct foreign investments, developing countries including Namibia embarked on aggressive economic strategies. Although these strategies are different in both forms and shapes, export processing zones (EPZs) appeared to be more favourable than others in many respects.

The EPZ concept is not a problem in itself. The problem it appears lie in the design of different incentive packages. The incentive packages are considered in two dimensions being comparative and competitive advantage. Comparative advantage included suspension of some national labour laws, suspension of social protection and other civil rights. Such suspension resulted in criticism against developing countries and foreign investors by ILO and trade union movements. Competitive advantage weighed in favour of those factors that appear acceptable by unions and citizens in general.

This Study therefore presented both the arguments for and against EPZs as strategies for industrialization and development based on comparative and competitive advantage. The Study further found that some of the ingredients in the comparative advantage package are not appropriate as they are hinged on the suspensions of national laws and other civil liberties. This study further proposed some factors which need to be taken into account as policy alternatives that

can improve competitiveness for any country. The study further proposed alternative approaches for policy makers and other stakeholders to consider and for possible action.

These proposals are put forward to policy makers with concrete evidence and information which indicates that it is possible for Namibia to pursue its developmental agenda and maintain national labour laws in parallel.

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## Dedication

To my children Lensy, Ivan, Atuhe, Tamuya, Iyaloo and Vena.

**Declarations**

This Research Paper is a true reflection of the candidate, Bro-Matthew SHINGUADJA's own research, and has not been submitted before for a degree in any other institution of higher learning in Namibia and The Netherlands or somewhere else in the world.

**SHINGUADJA, B.M.**

## Acronyms

| | | |
|---|---|---|
| AGOA | = | African Growth and Opportunity Act |
| CEAR | = | Committee of Experts on the Application of Conventions and Recommendations |
| DRC | = | Democratic Republic of the Congo |
| EOI | = | Export oriented industrialization |
| EPZs | = | Export Processing Zones |
| EU | = | European Union |
| FDI | = | Foreign Direct Investment |
| FIA | = | Foreign Investment Act |
| GIPF | = | Government Institutions Pension Fund |
| ILO | = | International Labour Office (Organization) |
| ILO/SAMAT | = | ILO Southern Africa Multidisciplinary Advisory Team |
| IMF | = | International Monetary Fund |
| LAC | = | Labour Advisory Councul |
| LaRRI | = | Labour Resource and Research Institute |
| MUN | = | Mineworkers' Union of Namibia |
| NAFAU | = | Namibia Food and Allied Workers' Union |
| NEO | = | New economic order |
| NUNW | = | National Union of Namibian Workers |
| ODC | = | Offshore Development Company |
| OPLMC | = | Ongopolo Processing and Mining Company |

| | | |
|---|---|---|
| TNCs | = | Transnational Corporations |
| UNCTC | = | United Nations Centre for Transnational Corporations |
| SSC | = | Social Security Commission |

# CHAPTER ONE

## 1. INTRODUCTION:

Namibia is a developing country that gained its independence in 1990. At that period in history, many developing countries were confronted by, and embroiled in economic down-turn, unemployment problems, stiff-competition in the labour market, lack of developed human resources and other social challenges.

In order to deal with these challenges, Namibia embarked on an aggressive economic strategy based on sound and sustainable economic and investment policy. The Namibian Parliament passed, as one of its first acts, the Foreign Investment Act (FIA) (1990). One of the important objectives of the FIA is to offer good incentives to foreign investors intended to invest in Namibia. The investment to be made was expected to meet certain criteria as determined by the Minister of Trade & Industry. Some of the criteria are that the investor utilizes Namibian resources including labour and natural resources so as to contribute to the economy by, inter alia, increasing employment opportunities in Namibia, providing for the training, earning or saving foreign exchange, and generating development in the less developed areas. (FIA 1990).

Five years later the Namibian Parliament further promulgated the Export Processing Zones Act (EPZ Act) (1995). Export Processing Zones or EPZ's could be defined as a clearly delineated industrial estate which constitutes a free trade enclave, in the customs and trade regime of a country, and where foreign manufacturing firms producing mainly for export, benefit from a certain number of fiscal and financial incentives (ILO/UNC TC 1988). EPZs are therefore export enclaves within which special economic concessions apply including an extensive package of incentives and exemption from certain kinds of legislation which do apply outside the zones (Abbott 1997). The EPZ Act was therefore introduced primarily to create and develop specific areas aimed at attracting foreign investors to Namibia. A wide range of incentives was offered in this regard.

However, some of the incentives offered in terms of the EPZ's Act were modifications of those already offered and guaranteed in the FIA. Moreover, the EPZ Act intended to prohibit the application of the Labour Act: 1992 (Act 6 of 1992) in all the zones. Section 8(1) of the EPZ Act stated that "the provisions of the Labour Act shall not apply in an export processing zone". This provision was problematic especially with organized labour. In their arguments against the EPZs, the National Union of Namibian Workers (NUNW) stated as follows: "...... If the Labour Act is not applicable then we have problems with the establishment of the zones". The NUNW further claimed that non-applicability of the Labour Act is a way of broad exploitation of workers without any justification: (The Namibian 1995:5).

Flynn (1988) concurred with the views of the NUNW. She stated that in some countries the labour force is treated in the same manner as the availability of land, water, and electrical power and factory facilities in order to lure foreign investments. According to Flynn further stated that little effort is therefore made to guarantee the basic rights of the workers, as the host country desperately wants to solve its high unemployment problem. It appeared as if Namibia has attempted to adopt the same approach.

However, Namibia's constitution guarantees basic human rights including that of workers and trade unions and further attaches great importance to the International Labour Organization (ILO) principles and other international obligations.

As a democracy and a member of the ILO, Namibia was accused of violating Convention 87 of the ILO that deals with Freedom of Association and Collective Bargaining. This accusation culminated in calls to amend the EPZs Act and for Namibia to submit a full report to the ILO explaining her decision in the matter (Report CEAR 1998: 179).

Although the Act was amended due to pressure from both the ILO and NUNW in 1996 (EPZs Amendment Act 1996), a new clause was introduced to prohibit industrial action in the zones remained in force for five years, i.e. from 1996 to 2001.

This paper pays special attention to policy choices and strategies taken by the government of Namibia in its investment promotion efforts. It intends to examine why these policy choices and strategies could ignore important issues such as human rights at work place, social protection and justice. To fully understand these choices, this paper will look at two investment approaches, i.e., comparative advantage and competitive advantage of the EPZs. Both approaches are about investment incentives and attraction of foreign direct investment. This paper is therefore an attempt to discuss and debate EPZs initiative as

Namibia's developmental policy and investment strategy vis-à-vis trade unions' rights in workplace (EPZs).

## 1.1 Background:

Economic theorists and advocates of foreign direct investments (FDI) in the 1980s and 1990s (IMF, World Bank, Neil Kearney, 2001) argued that special arrangements and investments were some of the prerequisites to economic development and industrialization for developing countries.

According to the World Investment Report (2002), the setting up of export processing zones (EPZs) with a view to providing efficient infrastructure and removing red tape within the confines of a limited area was a widely used tool in the context of promoting export oriented foreign direct investment. The report further stated that successful countries identified with economic growth have established EPZs or other schemes that share common characteristics and a number of them account for a large share of non-resource-based manufactured exports.

Unions fear the lack of social protection, especially in developing countries where an abundance of unskilled and cheap labour exist. Some employers are likely to use this condition to exploit employees. Governments use the same condition of readily available labour in an attempt to attract foreign investments to reduce high rates of unemployment. This controversy put the government, trade unions, employers (investors in terms of zones) and local businesses on a head on collision in Namibia. Like in

Namibia, some developing countries were placed in an awkward position with regard to policy choices and appropriate strategies. The arguments of what is known as the race to the bottom in developing countries which try to attract FDI at the expense of social standards and human rights are centred around this approach.

With an ever increasing number of developing countries embarking on similar export oriented development programmes by using the abundance of labour as their comparative advantage, the battle for foreign investment becomes increasingly fierce. The danger therefore is that the competitive outbidding between sites will take place, and as such a race to the bottom will ensure that potential for recovering the capital costs of creating EPZs and fiscal incentives of attracting FDI will be eroded (Abbott 1997:6).

## 1.2 Study Problems:

Given the background, it appears as if developing countries are finding themselves in a dilemma of facing developmental challenges and, at the same time, of meeting conditions for investment as determined in some by foreign investors, the World Bank, International Monetary Fund and other development agencies.

Developing countries need to attract foreign investment to improve their economic growth rates which in turn is assumed to increase job opportunities. As countries compete with each other for investment, they offer concessions to foreign companies. EPZs often provide free infrastructure, a tax-free environment and exemption from national laws in particular labour and social security laws (World News 2002).

In countries like Malaysia, Thailand, the Philippines, and to a certain extent Namibia, exemption from national laws includes restriction of trade unions activities, i.e. freedom of association and social protection (right to collective bargaining). Zones are generally managed by an authority on which both government and the private sector are represented. Workers' organizations and labour ministries are not always represented even though the authority may be mandated to handle labour matters (Romero 1998:2).

Although the call for conducive environment for investment and economic prosperity is understable it is however important to investigate the reason behind the incentive packages provided by some developing countries. It is also important to understand the comparative and competitive advantage approaches which may be in conflict with trade unions rights, social protection and basic principle of labour relations in general.

This study therefore investigated why EPZ incentive packages are designed the way they are and also why governments in developing countries are willing to allow their citizens to work in an EPZ environment without social protection and other ILO provisions related to worker protection.

## 1.3 Study Justification:

The quest to formulate and adopt appropriate investment and industrialization policies, has been one of Namibia's priorities since 1990. Namibia created EPZs to attract direct foreign capital injection into her weak economy with a particular attention focused on manufacturing, massive job creation, skill transfer, and the development of management and labour skills (EPZs Act 1995). Arguments are continuously put forward that developing countries need to create a conducive environment for investments (World News 2002). This therefore then presupposes that independence, peace and stability and democratic governance alone were not sufficient to bring about development and investment. It also appears that local investments alone were unable to kick-start and stimulate the economy, create more jobs and could not effectively reduce poverty and other social challenges. This is the reason why the Namibian Government created EPZs. Aggressive marketing and promotion of the country and its wealth of investment opportunities is a continuing task undertaken by the Ministry of Trade and Industry. This Ministry's promotional focus is aimed at attracting both foreign and local investment, especially to value added, wealth generating activities. Further, FDI inflows are now diversifying from traditional sectors, such as mining and fisheries, into a wider range of operations (Ministry of Trade and Industry 1990 – 2000: 137)

Since the first company established itself in the EPZs in Namibia 1995 there has been differing views and opinions on the investment strategy. The government considers the zones as a means to obtain foreign capital investments while transnational corporations (investors) perceive the zones as providers of favourable investment sites. Local companies on the other hand, complain about unfair competition, whereas trade unions generally see the zones as sites of severe exploitation of labour (LaRRI 2000:16).

These differing views are difficult to reconcile, hence there is need to investigate and try to understand the underlying interests of each of the above stakeholders. These major actors have to play their roles in an investment, social and political environment with labour rights and responsibilities and where legal obligations and human rights are determined for all. As a consequence therefore, appropriate policy choices accompanied by sustainable strategies seem to be necessary.

## 1.4 Study Objectives:

As stated earlier in this paper, this study investigated why EPZ incentive packages are designed the way they are and also why governments in developing countries and Namibia in particular, are willing to allow their citizens to work in an EPZ environment without social protection and other ILO provisions related to worker protection (Labour Standards).

## 1.5 Study Questions:

Given the problems and justifications of the Study, the following Research Questions are posed:

(a) Why did developing countries with EPZs, and Namibia in particular, suspend labour laws, social protection (clauses) and other civil rights in EPZs,

(b) Does the suspension of labour laws, social protection (clauses) and other civil rights in EPZs in itself encourage FDI, and

(c) Does the suspension of labour laws, social protection and other rights contribute to EPZs comparative and competitive advantage?

## 1.6 Study Methodology:

In order to investigate the above research questions, this study employed qualitative research approaches. This study also did case study analysis, and used archival data (a collection from published and unpublished documents, books and other written articles and journals on the subject) and conducted a semi-structured interviews with ODC, NIC, Ramatex Textile Namibia (Pty) Ltd and NUNW on the EPZ regime in Namibia.

## 1.7 Study Limitation (Study Delimitation):

The Study is generally on the EPZs as a policy strategy by the Namibian government. This study will not focus on any aspects related to EPZs that are not covered under the research questions. While this study will draw on experiences in other developing countries, the focus of this research is not to compare Namibia's EPZs with other developing countries. The primary focus will be on EPZs in Namibia.

## 1.8 Study Organization:

The Study is designed and arranged to contain four chapters. The first chapter is devoted to introduction of issues for examination and discussion as covered by the Study, and the rational thereof. The second chapter provides the reader with the literature review and analytical framework aimed at unearthing different but basic concepts and theories behind the EPZs for policy choices. The third Chapter deals with the application of theory and concepts to available empirical evidence on EPZs in Namibia. This is what one can call "study chamber" in which comparative advantage and competitive advantage questions vis-à-vis the government policy, labour market policy, investment and EPZs legislation are analyzed. Barriers, drawbacks and successes are highlighted. The fourth chapter covers the researcher's conclusions and recommendations.

# CHAPTER TWO

## 2. LITERATURE REVIEW

The aim of this Study was to try and examine the reasons for establishing EPZs as a development and economic strategy, why main EPZ regimes appear to have been exempted from some of the national laws such as labour laws, social protection laws and other civil rights. And in the final analysis to find out why suspension of some of these laws was seen as a comparative advantage for competition. This was done by looking at the work which was already done by several writers on the topic, concept of EPZs and FDI as applied and implemented in developing countries.

### 2.1 EPZ: The concept:

The concept of EPZ was first introduced and established at Shannon in Ireland in 1959. According to the International Confederation of Trade Unions in their information Bulletin on Trade Unions and the Transnational, the initial objective of the Shannon EPZ was to maintain employment at the airport by attracting manufacturing activities which would generate air freight, but later this became "the focus of a drive for export industries".

ILO/UNCTC defines an EPZ as "a clearly delineated industrial estate which constitutes a free trade enclave in the customs and trade regime of a country, and where foreign manufacturing firms producing mainly for export benefit from a certain number of fiscal and financial incentives" (ILO/UNCTC 1988:4).

According to a study by LaRRI (2000), the Government of Namibia introduced EPZ Act in 1995 as part of its strategy to become an internationally competitive investment location. In the same study, LaRRI argued that, for Namibia to be attractive to investors special incentives are offered to EPZ companies. Such incentives include a corporate tax holiday, exemption from import duties, factory facilities at economic rates and a guarantee of free repatriation of capital and profit. These incentives were taken as attractions for foreign investors to swarm the zones. The incentives came as a public policy approach or deliberate and pronounced policy by Government using legal instruments.

Jauch et al (1995) define export processing zones as a "delineated, enclosed and policed area of a country which has an industrial estate specializing in the production of manufactured goods for export. EPZs are "fenced off" industrial enclaves which are physically, socially and economically segregated from the rest of the country". This definition reveals more aspects. Industrial enclaves for manufacturing goods for the export market are not the only characteristics of EPZs. Other aspects such as enclosed and policed areas, are key factors supported by physical, social (includes labour) and economical segregation from the rest of the country. In order to understand why these other factors are associated with EPZs is to make and treat the zones specially but also separately from the conventional, social and economic development of the country.

In Namibia, the EPZs Act allows the Minister of Trade Industry in consultation with the Minister of Finance "... to determine the location and extent, and define the physical characteristics or boundaries of an export processing zones". In practice, the

ILO/UNCTC definition of the EPZs appeared to fit well in the Namibian EPZ concept.

These concepts are all aimed at offering incentives including the restriction of trade unions activities which are not otherwise, possible outside the zones. The concept of attracting foreign investors in these zones as an Irish invention was then replicated in many developing countries particularly in Eastern Asian, Africa and the Caribbean (Pacific rim).

Exclusion of the right to freedom of association and right to organize has been one of the characteristics of EPZ regimes and seen as an important incentive to some employers and a gross violation of workers rights by trade unions. To attract foreign investors, export processing zones in some parts of the world effectively restrict freedom of association. Whilst local authorities may believe that very low wages and no labour regulations will attract business the investors may well be ready to accept higher costs if there is political stability infrastructure, domestic demand for the produced goods and services, and well functioning industrial relations (ILO 2000).

Din (1994) remarked that one of the major objectives for forming EPZs is to stimulate the domestic sector through backward linkages. These linkages could be argued to be incentives offered to companies intending to operate in EPZs, e.g. exemption of tax, repatriation of profit, etc. Abbott (1997) argued that without greater backward linkage and technology transfer there is a real danger that EPZs will remain isolated enclaves of economic activity. Without technology diffusing into the local economy foreign enterprises will find the gap in corporate cultures and skills to great for enhanced corporation.

Casperz (1995) stated that traditionally, EPZs are a government sponsored, foreign investment dominated enclave style industrial estate, where production is for export and operations are characterized by minimal administrative requirements, import and export duties.

As it can be seen, the concept of EPZ is focusing on the creation of an attractive package of incentives offered by the state to mainly foreign investors with bias in manufacturing for export purposes. This concept is designed within a developmental and economic strategy of a given country. The incentive package in the Namibian context is the central focus of this study.

Fröbel et al (1980) argued that industrial utilization of the labour forces of developing countries "is really the industrial utilization of cheap labour". Although this is so, it is not always reflected clearly as part and parcel of the incentives package. Cheap labour is believed by many trade unions to be the main incentives in the zones. This belief is based on the fact that many EPZs do not apply or are not covered by labour legislation. This lack of adequate labour protection is referred to by some as a comparatives advantage as appose to competitive advantage.

Romero (1998:9) argued that labour relations in the EPZs are influenced by several factors, one of them is normative and "certain governments, in an attempt to enhance their countries' location–specific advantages, have exempted EPZs from all or part of the national laws. The granting of such exemption is more the exception than the rule. However, where they exist, it is the restriction of the exercise of trade union rights that has sparked the most controversy. It is seen as leaving workers with no means for articulating their concerns and defending their interests if national laws or EPZ regulations are either disregarded by certain employers or not properly enforced by the governmental or EPZ authority".

Flynn (1988) argued that some of the major slogans used in the competition between developing countries to sell (or offer) their workers on the world labour market include productivity, loyalty, mobility among others. The chief selling point of course is that the quantity is large and price is low (wage). This is what Förbel et al (1980) called "super-exploitation". Other conditions do range from lifting of labour law protection, restricting or controlling of trade unions activities, prohibition of industrial actions, let alone other social benefits such as social security systems.

There could be many reasons why Namibia chose EPZ as an investment strategy. This may include, but are not limited to the following:- high rate of unemployment mainly among the unskilled and semiskilled labour force, assumption that EPZ would attract manufacturers to Namibia thus establishing a manufacturing power base, and acquisition and transfer of technology will take place and benefit the country. If this happened, many job opportunities will be created and training on the job offered (Shinguadja 1997).

Casperz (1998) identified additional reasons and argued that EPZ enables capital interests to maximize returns because stages of production can be located at various sites (depends on both comparative and competitive advantages to be derived at either site) according to production needs without incurring a financial disadvantage. He further argued that the stage of production required a mass of low skilled labour, which was both cheap and readily available (comparative advantage). Here production was cheap but yet the commodities or good have to be sold at market price (competitive advantage). This implies that goods have met both quality and quantity requirements for competition. Casperz (1998) further observed that the aspect in the model which is of significance here is that because economic growth under both export-oriented industrialization (EOI) and neoliberalism (also referred to new economic order) (NEO), occurs through the most efficient allocation of resources based on comparative advantage, labour becomes just another factor of production to be used for maximum economic benefit. As a result, he concluded, EOI labour must be controlled in favour of state (developing countries) and capital interests (investors in EPZ). This is what the Offshore Development Company of Namibia (a state owned company) meant by stating "Investors' interests are at the heart of ODC's philosophy and service. It stands by the investor's side every step of the way" (Namibia EPZ: Africa's True Tax Haven (2001).

## 2.2 EPZs and comparative advantage:

With the exception of Mauritius and Tunisia, EPZs as instruments for economic development in Africa have been less successful when compared to countries in Asia, Central America or the Caribbean basin (Watson 2001). This failure may be ascribed to many factors such as political independence, centralized and planned economic systems, lack of free market economic imperatives, etc. The struggle for liberation of Africa was, among others, against exploitation of man by man or employee by employer. As a consequence, African countries from the start seemed to be not keen to allow perpetuation of cheap labour which is one of the corner stones of comparative advantage in many EPZs. Opinions about the benefits of EPZs and their contribution to industrial development tend to be polarized. Those in favour argue that the EPZs have enabled countries to diversify their economies, increase export earnings and create jobs in enterprises where pay and working conditions are often better than those in comparable non EPZ establishments (Romero 1998). For investors, EPZs offer attractive concessions and access to low cost labour. Moreover, some investors see Africa's vast natural resources as offering possibilities for diversifying activities in the future. In 1994, 40 percent of entrepreneurs in Madagascar said that the availability of local raw materials was an important consideration for investing in the EPZs (Razafintsalama 1996:997)

## 2.3 International outlook in brief:

The International Confederation of Free Trade Unions presented the following findings as argument for comparative advantage:

> "A major selling point to attract foreign investment of the EPZs is the existence of this cheap, literate, productive and docile labour force. Selection from advertisements and brochures for EPZs indicate that labour rates in Malaysia are amongst the lowest in the region and female workers can be hired for approximately US$ 1.50 per day. The labor force is generally English-speaking and the literacy rate is extremely high. One of the major factors that recommend Thailand to the investor over other countries in the region is an abundant supply of

cheap and trainable labour. Mauritius on the other hand, has a large reserve of human resources easily adaptable to new and modern techniques of production. Wage scales are much lower than for similar categories in developed countries, and low cost labour: This is without doubt the chief incentive offered by the ZFIC in Colombia pays salaries are more or less the same as those that prevail in the industrial zones in the Far East (S$ 2.10 per day including social security). Local people are easily trained by experts. Male and female workers are easily obtained due to the high rate of unemployment, rapid increase of population and the emigration from the rural zones to the cities" (ICFTU).

Up to the mid -1980s low wages and exceedingly long working hours caused discontent among EPZ workers in Mauritius, and the labour relations climate improved only with social dialogue and regulatory reforms which brought minimum wages and working conditions in EPZs closer to those in other sector (Romero 1998).

## 2.4 <u>Local outlook:</u>

Namibia also have a large reserve of unskilled and semi-skilled human resources. Part of this reserve is youth who have either completed their secondary school education or possess a national diploma in certain areas of study. They can therefore be trainable. Most economic sectors have no prescribed minimum wage.

By the same effort, ODC in selling EPZs in Namibia invited investors, inter alia, because of

> "unequalled industrial calm, no strikes or lock-outs are allowed in the zones and of a large pool of motivated workforce."

From the perspective of the country hosting an EPZ the main merits of such a zone include, (a) a gain in foreign exchange due to increased exports, (b) the absorption of surplus labour force, and (c) the transfer of technical know how. The foreign investor takes advantages of favourable conditions for industrial location and most importantly the existence of a stable, cheap labour force from this, we see that labour is of paramount importance to both the host entry and the investing country. Its availability is considered by both the investor and host country to be necessary pre-conditions for foreign capital Investment.

The host countries see investment as providing employment and foreign.
The abundance of unskilled labour in developing countries contributed to the fear of the lack of sound social protection. Some employers are likely to use this condition to exploit employees. While governments use the same condition of readily available labour to reduce high rates of unemployment capitalist investors require this labour in order to carry at these profitable operations which are mainly labour intensive. It is obvious that this cheap labour force which the host country provides is being used as a bargaining factor to entice foreign investment (Flynn 1988:2).

Apart from cheap labour in its abundance available in many developing countries and poor working conditions in EPZs, prevention or restriction of union activities is one of the comparative advantages associated with many of the countries identified to have successful EPZ regimes mainly in South Asian region. For example, the Industrial Relations Act (1967) of Malaysia was criticized for it was too restrictive when it comes to the right to strike, the right to collective bargaining and by excluding hiring or firing, transfer, promotion, dismissal and reinstatement of employees from collective bargaining process. The Namibian Export Processing Zones Act (1995) followed the same pattern of Malaysia wherein it stated that "the provisions of the Labour Act 1992 (Act 6 of 1992) should not apply in an export processing zone". The Act, instead gave the Minister of Trade and Industry to determine issues like basic conditions of employment, termination of contracts of employment in consultation with the Minister of Labour and Offshore Development Company. Because of their knowledge of horrible working conditions prevailing in EPZs in many other countries, the workers and NUNW maintained and argued that without protection of the Labour Act, workers in EPZs will be sacrificed to unscrupulous investors (Shinguadja 1997).

The union's concern and its rejection of the EPZ Act resulted in compromised amendment to section 8 of the Act. Although the compromised amendment allowed the application of the Labour Act in the zones, it also imposed a ban on industrial actions for the next five years. The prohibition of industrial actions read as follows "The provision of the Labour Act (Act 6 of 1992) shall applicable ... subject to the provisions of this section:-

"Notwithstanding the provisions of sections 79 and 81 of the Labour Act 1992, but subject to subsection (10) of this section:-

(a) no employer or employee shall take action by way of, or participate in, lock-out or strike in an export processing zone; and

(b) no employee, office-bearer or official of a trade union shall be entitled to perform in an export processing zone the act of peacefully persuading any other person to perform any work or not to so perform any work, if such action is in furtherance of a strike by virtue of the provisions of section 79(1)(c)(ii) of the Labour Act of 1992, as contemplated in subsection (3) of section 81 of the Act.

One may wish to know why EPZs legislations do restrict the union activities and ban industrial actions in the zones. It has been established that investors who would like to invest in these kind of zones do present to host governments a number of shopping list of demands. This list ranges from political stability to the guarantee that there should be no labour (production) interruption in their business undertakings. There is evidence that TNCs are putting pressure on governments for no union "guarantee" as a prerequisite for investment (ICFTU). Some of these preconditions are contrary to national laws which guarantee fundamental human rights and other civil freedoms. In Namibia, EPZs Act was not only found to be incompatible with both the Labour Act and the Constitution (supreme law of the country) but also contrary the ILO Convention 87 (1948). This kind of approach is more or less similar in many developing countries like in Pakistan, South Korea, Malaysia, Mauritius, The Philippines, Thailand, etc.

Having recognized both needs for economic development and protection of workers, the ILO tripartite constituency of governments, employers and workers adopted a social and legal framework within which international businesses (transnational companies) have to conduct their investments. The adoption by the International Labour Conference of The Tripartite Declaration of Principles concerning Multinational Enterprises (MNES) and Social Policy (1977) was seen as a catalyst document aimed at striking a balance between investors, their employees and host governments in areas of social, cultural and economic development.

In a world of constantly shifting patterns of comparative advantage, firms which are unable to innovate and adapt will not survive. Management needs to be able to harness the firms' capacity for innovation as well as to utilize technology and human resources and translate these information efficient work organization (ILO 2002). This argument appears to be an attempt to provide another side of what can make a comparative advantage incentive package without necessarily exclude organized labour.

## 2.5 EPZs and competitive advantage:

According to Chuma-Mkandawire (2002), competitiveness can be defined as the ability to achieve and sustain good performance and productivity (SAMAT News 2002). The South African Department of Trade and Industry defined competitiveness as the pressure resulting from more enterprises offering similar goods or services to the same market, thereby requiring changes in factors internal and controllable by the enterprises such as good management, productivity improvement, innovation, technology and cost structures.

Competition is therefore the buzzword of free the market economy. Public and private sectors are both producing, marketing and delivering goods and services based on competition principles and ethics. However, for a company or any entity to compete in the market has to have certain abilities and also meet certain but specific requirements.

In today's world competition is woven in the wave of globalization. Globalization has captured the attention of governments, multilateral institutions and policy-makers everywhere. The term globalization means many things to many people, but as argued, according to the ILO it refers to the combination of opening and integrating markets, technological innovation, and political reform. The first component of globalization is the heightening of competition, the result of the liberalization of trade and financial regimes and integration of markets. Over the last 30 years, international trade and flows of foreign direct investment have grown faster than world output. The expansion of trade in goods and services, capital flows, and shrinking transport and communication costs force employers, unions and governments increasingly to take account of competition from other countries (ILO 2000).

As it has been stated at the beginning, competition is an important integral part of globalization. Prokopenko (2000) argued that:-

> "Globalization refers to multiple connections between nations and the process by which events, decisions and activities in one country have significant effect on people in other countries. It means extending the scope of cross border

transactions and increasing the economic independence of nations. It generally refers to a broadening and deepening of international trade, foreign investments and portfolio flows and it involves international integration with radical implications for all countries of the world".

Conceptual examination of the above arguments on competitiveness may lead to critical argumentation of what amounts to competitive advantage (in EPZs) in this globalizing world. Njuguna (2002) has taken this argument further by arguing that:-

> "A prerequisite to participate in globalization (competitive market) is the need to put in place the political and economic conditions and institutions to create a market economy. These include access to and respect for the rule of law, an impartial judiciary, the recognition and enforcement of basic property and contractual rights, an efficient and well regulated financial system, an effective and corruption free democratic political system and sound macro economic policies. These conditions and institutions should be developed by each country to fit its individual administrative and financial capacity and by using a consensual approach through national social partners" (Njuguna 2002:11).

The above quotation is focusing, from the employers' perspective on what can be called "an investor friendly environment". This environment may be created in a given country of the world. However, the environment alone cannot attract investors to invest where they wish to invest. There are other critical issues or prerequisites which investors are interested in. These are applicable everywhere, and for any country to become competitive in the world, continental, regional or local market. These prerequisites include but are not limited to:-

- skilled or highly trained human capital,
- good infrastructure such as telecommunications, road infrastructure, etc.,
- access to or availability of technology and innovation,
- access to finances and functional market institutions,
- respect and maintaince of law and order,
- guarantee of human rights and other civil liberties,
- highly motivated and productive workforce,
- organized labour for dialogue and collective bargaining (freedom of association), and
- clear labour market policies, etc.

The above are considered as some of the necessary ingredients which form or make up the competitive advantage package as opposed to comparative advantage.

Workplaces where the employees have exercised their right to organize tend to be better at innovation, adaptation and productivity. However, trade unions are not universally seen by employers and public authorities as partners in this process; indeed they are seen as negative factors. Human resources management can be fully compatible with freedom of association and collective bargaining, but some managers see it as a way to avoid independent collective representation by employees. A unionized workplace can even be perceived as a sign of poor management. And yet freedom of association is a natural corollary to freedom of enterprise (ILO 2000).

In search for foreign direct investment to enhance industrialization and to fight against unemployment and under development by developing countries is not just capital alone but other prerequisites like increased knowledge and skills in an economy are necessary. Foreign Direct Investment promotes a focus on productivity improvement, management skills and facilitates integrated links to developed market. Attracting FDI it requires creating an attractive environment for investment, which includes government accountability and transparency, capital mobility, labour market flexibility, human resources development and infrastructure (Njuguna 2002).

Tandon (2001) expressed doubt on the FDI in Africa by taking a different view. He argued, that:-

> "Instead the assumption that FDIs brought growth had become so axiomatic in mainstream economic literature that it becomes doctrinal heresy even to question it. Everybody seemed to be swearing by FDIs. Nothing seemed to attract FDIs into one's economy. More and more incentives were needed to seduce FDIs, in terms of both inducements and abstinences. For example, workers were expected to abstain from strikes, for if they did in order, for example, to demand higher wages or better working conditions, these were seen to be sending "wrong signals" to foreign direct investors. Similarly, if the strictures of the World Bank or the IMF were not followed to the letter, these too were sending wrong signals to foreign investors (Tandon 2001:3)". He concluded that these days one cannot cough in the privacy of one's home without sending wrong signals to private foreign investors. Everybody has to bend backwards to entice the fickle FDI and to keep it at home and prevent it from flying away to greener pastures.

# CHAPTER THREE

## 3. FINDING THE EVIDENCE

### 3.1 From the Government's point of view:

As it has stated the EPZs concept was introduced by many developing countries primarily to address social challenges and to fight underdevelopment which are facing developing countries.

Two representatives of the Offshore Development Company of Namibia and Namibia Investment Centre, respectively, argue that the Namibian EPZ regimes were introduced in 1995 and the rationale was threefold. According to them, EPZs were established, to create much needed job opportunities. They further stated that, job creation leads to wealth for individual Namibians and for the country as a whole, and through this initiative, technology and skills transfers can be realized. In so doing, Namibia was to act not only in the regional context but also in the global environment.

In these contextual approaches the Government of Namibia was expected to present and put forward certain measures. These measures created what is called investor confidence. The two representatives of ODC and NIC argued that investors wanted an assurance that their equipment and investments are socially and politically secured (security for investments). In order to demonstrate this, they further said that the Government was willing to meet some of the desired assurances. It was therefore deemed necessary to introduce some restrictive measures in terms of EPZ Act. The compromise was then to have industrial actions restricted in the zones for at least five years, i.e. June 1996 to June 2001.

It has been admitted by the ODC and the Investment Centre of Namibia representatives that some of the measures would have not been the best to take but the high rate of unemployment and attraction of investment were the highest government priorities at the time. They further stated that school graduates and ex-combatants were not to find jobs, "a volcano was about to erupt". To avoid that catastrophe they argued for rapid yet drastic action was needed to introduce an attractive investment incentive package.

It was believed that the manufacturing sector was only the sector that could create jobs in great numbers, ensure transfer skills and speed up economic growth. However, the ODC and NIC representatives observed that, the government had also realized that the Namibian market was small, e.g. the tannery sector as manufacturer, needs the market for its leather products.

As a result, they underlined the point that, in the search for investors with interest in manufacturing, vis-à-vis marketing, a special area to cater for both was needed and that was the establishment of EPZ regimes. This alone, they said was not enough as Namibia lacks skills and technology in many areas of economic development. An appropriate and balancing strategy was not only to be found but had to be found fast.

This, according to ODC and NIC representatives, was not an easy task to do because many developing countries with comparative and competitive advantages like Thailand, Kenya and Mauritius were also aggressively marketing their EPZs and they have been in the business of EPZs longer than Namibia. At the time Namibia introduced her EPZs in 1995, there were already between 82 – 85 countries with about 170 – 200 EPZs sites in the world. These sites were for different activities such as jewelries, electronics and toys to name a few.

During the interview with both the ODC and NIC representatives, emphasis was made that, business people or in short, investors do go everywhere they think their investment will grow safely. According to them Namibia lacked by then, real comparative advantage to attract these mobile businesses. There were no skills, the harbour, (port) facilities were not developed, no clear marketing opportunities, banking or financial institutions were largely racist and visible anti-blacks and non South African. The country was therefore not easy to market yet it has a lot of challenges.

The ODC and NIC representatives stressed that all these challenges and shortcomings were taken into account. It was then decided thereafter, putting political, economic and social concerns into consideration, that in order to make Namibia competitive, there was a need to create a comparative advantage in terms of the EPZs Act.

In order to justify the arguments in favour of EPZs, ODC and NIC representatives said that comparative advantage was then introduced as part of the whole incentive package. They said the package included, among others, the ban on industrial actions for the next five years, tax haven as oppose to tax holiday concept provided the company remains a Namibian company. They argued that the main idea or an overall aim was to attract investors in EPZs as competing areas. By so doing, as long term objectives much needed jobs were to be generated, skills transfer and training opportunities were also expected to take place along the same lines.

Representatives from the ODC and NIC were of the opinion that although the Government approach has been criticized by the trade unions for having prohibited industrial actions in the zones, this was a fair criticism but without assurance to investors especially in the early stage of the EPZ regimes. No investor like Libra Namibia, Press and Tools, Ramatex Textile Namibia or Skorpion Zinc Project could have come to invest in Namibia. Industrial actions, the representatives assumed, in the EPZs at that very early stage could have tarnished Namibia's image and thus makes it very difficult to be a competitive developing country in the region and the world as a whole.

According to ODC and NIC representatives, this position were carefully taken, evaluated, analyzed and the cost benefit approach was done. They said other examples were taken into account such as Senegal and Ghana which introduced EPZs concepts and regimes in early 1970s but failed to deliver up to now because of many setbacks including labour unrest and poor incentive packages. In the case of Senegal and Ghana the ODC representative argued that flaws were in project designs and implementation themselves.

The ODC representative during the interview said, incremental investments are always and only good through convincing and making follow-ups to ensure continued confidence which might has been created at the beginning. This he added has been Namibia's strategy in promoting EPZs. This approach requires much efforts and awareness creation by government, supported by its social partners.

The ODC representative observed that trade unions were therefore expected to understand the situation and play their contributive role in job creation and skills transfer for their members. According to him trade unions were taken into account as partners in development because if they are cooperative and employees do have jobs, trade unions are becoming strong both in membership and finances through the collection of union fees. The representative stressed that each player's role needs to be appreciated and clearly defined. He however agreed that unions are both good and necessary but there are certain issues if done at a particular given time can create havoc. To avoid that, investors must be made to feel welcomed, e.g. streamlining immigration laws, addressing trade unions demands and actions, improving other infrastructure and facilities, bank rates were high meaning there was a need to improve the banking system by reducing the rates.

Responding to the question about comparative and competitive advantage, ODC and NIC representatives responded that given the challenges of development, comparative advantage normally is what one naturally has like fish, wildlife, meat or diamonds in Namibia. It is something which can be given in return of getting something else. The comparative advantage is something that can make a country competitive in the world market. To them competitive advantage can be introduced or created. Things like harbour facilities, developed human resources, better and appropriate labour market policies, labour subsidy, etc. can be competitive or vise versa.

To amplify their arguments, the ODC and NIC representatives gave a Mauritius picture. They said Mauritius introduced the EPZs program in the 1970s and today Mauritius is the only African country statistically with very low rate of unemployment, better and acceptable level of living standards for its citizens, established functional manufacturing and exporting sector. All these they underlined were possible because of the right time, right way of doing things and sound labour market and economic policies. These representatives emphasized that EPZs as investment and development strategies do take time to realize the positive results, effects and impacts are between 10 to 15 years as in the case of Mauritius. As a consequence, Namibian EPZs will still take time but to them is viable and sustainable.

The ODC and NIC representatives maintained that the strategy therefore remains in place and will be in place as long as Namibia still developing and at the same time is faced with challenges of unemployment, lack of human resources development and weak manufacturing sector.

During the interview, the ODC and NIC representative rejected the connection between the zones and exploitation of employees. Instead, they argued that what many people do not understand is the fact that when a company establishes itself in a zone, it will take time to produce, export and market its products. This scenario apparently means there would be no justification of paying high and sometime unaffordable wages in first or second phase. However, they submitted that as the time goes on, employees are being trained, acquiring skills, production and efficiency improved then wages and salaries also approve this include other social benefits.

To backup these arguments, the said two representatives argued that when EPZs was introduced in Mauritius, employees were paid 23.00 rupee a day, today a lowest paid employee is receiving about 300.00 rupees a day plus some other benefits like overseas paid up trip as incentives. They further claimed that employees are now highly trained and marketable and employers are now running after employees for their skills, expertise hence high productivity and efficiency. The ODC representative further argued that to achieve that level mainly depends on market mechanism, i.e. create jobs first, create investor confidence and retain that, produce export and market the products then improve wages, consumerism approach to use capitalism methods.

The ODC representative strongly argued that market mechanization (market mechanism) is a very important factor in this highly competitive world and developing countries sometimes find themselves in a dilemma of how to solve many of their problems. The forces of demand and supply are not always in many cases at equilibrium. He observed that what is normally available in developing countries is labour and raw materials which are in big supply and no tangible or meaningful demands from employers or investors. Namibia has then to try and book itself a place in this kind of vicious circles.

To ensure such a place, the ODC and NIC representatives argued that certain issues have to be addressed although this may, at certain stage, require government to make unpopular decisions. They concluded that while these decisions are unpopular, they are made by taking a macro and long term investment strategy in order to benefit in the long run, investors, employers and the country as a whole.

In summary, the representatives interviewed stressed that investments have to grow gradually and wage and other conditions of employment will eventually improve and the overall economy will at the same time grow.

## 3.2 From the Investor point of view:

The administrative manageress of one of the textile companies in Namibia in an interview, stated that her company chose the Namibian EPZ because of good incentives it offers. She explained that the Namibian government's actions or efforts to attract investors were her company's main reason to invest. These efforts were accompanied by excellent services, efficiency and good facilities and not necessarily competition. She disclosed that services and facilities were put at investors' disposal unlike in South Africa for instance, where the service was not forthcoming.

The Textile industry official argued that although there were some labour related problems, she was concerned with the union's lack of understanding and adaptation of industrialization concept. The union in her view, seemed not to be worried about lack of motivation or low productivity. Another area of her concern is what she referred to as cultural thinking, i.e. employees focus on higher wage demands but have no motivation to become productive.

The administrative manageress further refuted the notion of exploitation and oppression of employees in EPZs as a reason for her company to invest in Namibia. She argued that labour legislation is fully applicable at her company which is the same coverage in the country of her company's origin. She in fact informed that the company is turning the workforce into collaborative relationship (labour/management) situation. This approach involves local people in management issues in order to effectively interact and communicate with the workforce. To this extent, a Recognition and Procedural Agreement was recently concluded and signed between the Company and Namibian Food and Allied Workers' Union (NAFAU). This Agreement, she said, was a big shift for the company because it is a move from confrontation to consultation and negotiation with the union and its membership.

In her concluding remarks, the administrative manageress praised the Namibian EPZ regimes' uniqueness which makes them different from other EPZ regimes around the world. The fact that EPZ operations are not restricted to a defined geographical area makes Namibia a comparative strategic advantageous location for foreign investors; "If EPZ can continue to be everywhere or scattered throughout Namibia this is quite good arrangement to attract investors", she said.

She stated that Namibia is more competitive than South Africa when it comes to service provision, efficiency and facilities but not more competitive than Malaysia in some areas such as productivity, skills and employees motivation.

## 3.3 View from other stakeholders:

In an interview with a LaRRI representative it transpired that he has a different view and opinion towards both the EPZ concept and approach. He argued that there is a wrong perception which is being entertained by both governments and investors in the zones. The perception is to continue now and then to keep on adding to the range of incentives. According to him, EPZ incentives are just part of incentives package given to investors everywhere.

Regarding the success story of Mauritius, the LaRRI representative said that the establishment of EPZ in Mauritius took place under different conditions such as:-

(i) it was during the 1970s,

(ii) The Lome Convention provided free access to the European Market directly, and

(iii) flight by and arrival of Chinese investors from Hong Kong for fear of the island's imminent reintegration into main China.

All these and perhaps other factors contributed to the success of Mauritius EPZ.

Responding to the question on the suspension of labour law and social protection policy, the LaRRI representative observed that one has to look at different types of investors and contextualize them into two categories, i.e. short and long term investments. For example, he said short term investments are probably interested in making quick bucks while those with long term investments are interested in stable political environment and stable labour relations. He was quick to point out that in fact not all EPZ companies are anti-union activities, anti national labour laws, social protection and other civil rights, but just a few or them.

The representative of LaRRI's reasoning was that many companies have found out and recognized that organized labour is in fact conducive to sound and sustainable investment. He further underlined that companies which are bashing unions do generally pay lower wages and their investments are for a short period of time.

The LaRRI representatives argued that Africa's biggest problem and that of Namibia in particular, is the capital that flows out, e.g. profit made or accrued in Namibia in his view should remain in the country. This consideration, he said, does not only help in addressing social challenges but also makes the national economy more stable and strong. He cited, in this case, GIPF and SSC that their own locally generated resources are leaving Namibia for stock markets outside. These could instead be used to support and build local businesses up to certain levels as a sort of social protection.

The representative further argued that investors look at a host of issues like extractive industries, e.g. oil and mining exploration in Angola, infrastructure for easy importation and exploration products in Namibia, social stability including labour relations, i.e. militant unions or consultative unions. He said the comparative and competitive incentive packages as provided should not necessarily be the exclusion of national labour law and other civil rights.

In his view, excellent infrastructure like banking facilities, transportation and telecommunication systems, high level of political stability, relatively peaceful labour relations, etc. can be comparative advantage for the country. He further stated that foreign investors are necessary but their investments must be sustainable, jobs created must be of quality, skills (technological) transfer must be realized and export of manufactured products must be viable.

The LaRRI representative observed that EPZs cost benefit analysis is when viewed in terms of incentive packages which include suspension of labour law and social dialogue. This, he said can be too costly if it results into labour unrest which can also lead to political unrest in itself which is unsustainable.

He underlined that historical and cultural EPZ concept's linkages can be effectively addressed through early joint (unions and government) debriefing for potential investors. This is so because he said it is sometimes difficult to draw clear lines between comparative and competitive advantage. To illustrate this point the representative cited textile companies in Windhoek and grape companies at Aussenkehr. For textile companies he argued that the incentive package (comparative) can be expensive in the long run if one considers water and electricity tariffs which companies has to pay to municipalities. As for the grape companies at Aussenkehr their location and climatic condition, i.e. the short proximity of Lüdertiz port for export purposes and the harvesting time of the table grapes between October and December each year can both be comparative and competitive advantage for Namibia to market.

In the same interview the LaRRI representative said that as a consequence, Namibia can build economy based on fair comparative advantage of local conditions which already exist and does not require the suspension of national labour laws or suspension of social protection.

On the FDIs vis-à-vis job creation, the representative argued that investments such as mining are consumers of much of the FDI but employs few employees compared to agriculture for example. Therefore, he concluded that FDIs must not be taken as if developing countries are beggars in their approach but must have something to offer. He concluded that this is possible through a kind of collective bargaining (negotiations) but not from a point of weaknesses necessitated by social challenges that are facing Namibia but rather as genuine partners for development.

## 3.4 The NUNW and EPZs

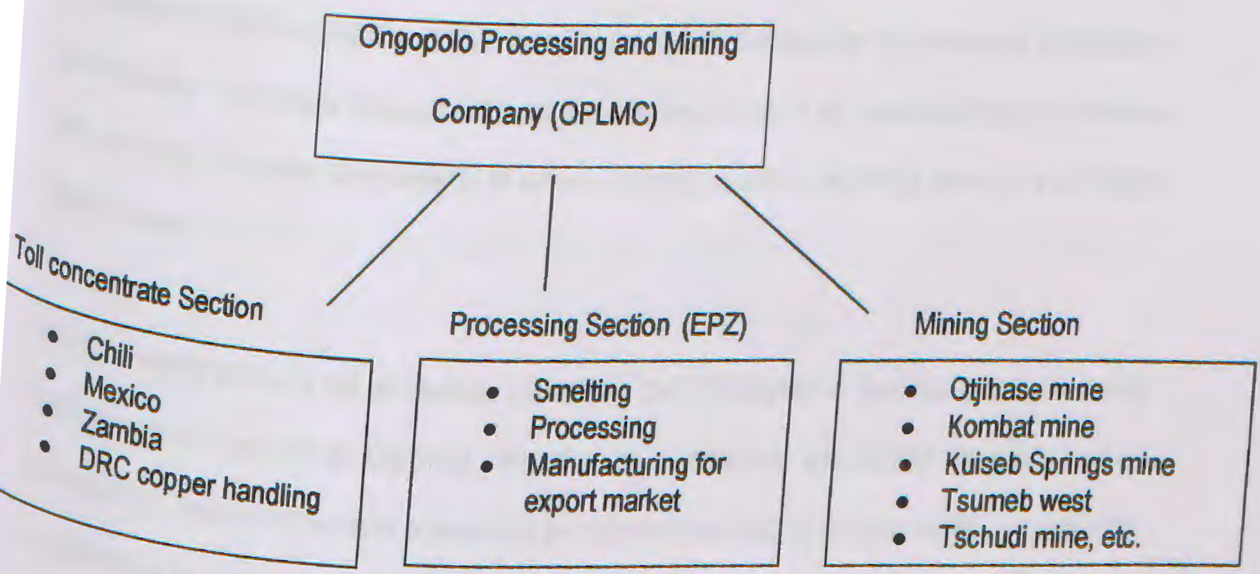
A former senior executive who served the NUNW immediately after the introduction of EPZ regimes in Namibia until the middle of 2002 was interviewed. From this angle he said that NUNW's original rejection of the EPZ concept was based on the non-applicability of the Labour Act in the zones. He explained that the whole approach of the non-applicability of the Labour Act, to NUWN, meant a total ban of trade union activities especially the collective bargaining rights and process. This, he said no serious and sensible labour movement would have been expected to agree to non-protection of its rights.

From his trade unionist point of view, the former executive said that, unions generally are well aware of bad things which are happening or had happened in several zones around the globe. Some of the bad things that are found in or associated with zones according to him are, e.g. suppression of union activities, low wages, high rate of employees turnover (summary dismissals), illegal strikes by unorganized workers because unions are banned or effectively restricted, introduction and usage of labour brokerage (labour hire) through a third party, lack of meaningful training and skills transfer, etc.

The former executive also said that apart from bad and negative side of EPZs there is one good thing and that is job creation especially in an environment with high rate of unemployment like Namibia. However, he argued this situation of high rate of unemployment should not be exploited by unscrupulous employers or investors. He analyzed that investment is always a risk hence investors in EPZs are expected to have had made their calculated risks instead of wanting labour laws, social protection, etc. suspended in their favour. He went further to say that social dialogue is healthy for any country and part of the social protection which many EPZs tend to avoid. Social dialogue to him is also needed for the nation as a whole. It is through social dialogue that social safety nets like minimum wage protection from the bottom, unemployment benefits, etc. can be formulated, articulated, accepted and eventually implemented by all.

A senior of a mining company was also interviewed. During the interview he agreed that the Company has EPZ status. However, he said that not the whole of the Company operation is an EPZ.

He presented a general structure of the Company as follows:




As a result, he further said the whole Company is unionized including the processing section which acquired EPZ status at the re-commissioning of Ongopolo. For Ongopolo to demonstrate its commitment to good labour relations, it entered into a Recognition and Procedural Agreement with MUN. The senior official said that it is a company policy that there must be a happy and motivated workforce because if labour laws and union activities are suspended the suspension does only lead to dissatisfied and demoralized workforce which can negatively affect the company's competitiveness.

On the comparative and competitive advantage argument, the senior official argued that there are factors that can be attributed to both. These factors are like good infrastructure, e.g. railroads, ports and handling facilities, critical mass, e.g. (luxurious passengers and goods liners prefer Cape Town instead of Walvis Bay), availability and affordability of oil (fuel) and energy (electricity), capacity for both export and import and skilled labour.

He explained that the company applied for and acquired EPZ status for its processing section only as competitive advantage because, he said, there is tax benefit in for export and import activities and products. Namibia also benefits in terms of foreign currency earnings which are in United States dollars.

While the senior official is not necessarily opposed to the EPZ regime in Namibia, he however said that the regime needs to be reformed. Reforms, he pointed out, are needed especially on tax breaks which are not at this time determined by volume (capacity) and value addition to products manufactured or exported. Another area which needs reform is EPZ administration. He observed that there is no adequate control mechanism in place which has the capacity to check, monitor and control investors in the zones, mainly on their imports and exports. Skills transfer and training is also an area he identified during the interview which needs to be reformed because, according to him there seem not to be meaningful training taking place in the zones in Namibia. He emphasized that labour laws and labour relations need to be harmonized with other laws in the rest of the country.

In his conclusion, the senior official said that investment is always a risky business, and as such investors are expected to make or take calculated risks instead of them to put pressure on governments to suspend labour laws and social protection. He argued that playing field must be leveled for everybody including employees instead of investors only as the case currently appeared to be in the zones.

## 3.5 Answering the Research Questions and presenting the argument:

Having consulted a variety of literature on the Research Topic and listened to different people interviewed for this purpose, it was now the time and place to go back to the research questions in an attempt to answer them based on the collected and available data.

(i) Why did developing with EPZs, and Namibia in particular, suspend labour laws, social protection and other civil rights?

In answering this research question, the Study found that in fact, developing countries do allow suspension of their national laws in EPZs with both the hope and belief that the approach can in the first place attract foreign investors and in the second retain them. As in the case of Namibia, clause 8 of the EPZ Act which effectively outlawed the Labour Act was presented by the government as part of the incentive package. The ODC and NIC said it was seen necessary to create investor confidence by assuring them that their investments and infrastructure are protected from strikes and union wage and other benefit demands.

One can see a danger in such arrangements. As the NUNW submitted, suspension of national labour laws do, in many cases, lead to illegal strikes and unfair labour practices (dismissals). These practices have the potential to become costs on the part of investors and the same practices are destabilizing factors in themselves. Apart from high costs, the suspension of national labour laws and social dialogue is not compatible with many democratic countries bills of rights as enshrined in their constitutions. This manifested itself in Namibia through its own constitution.

Article 21 (1) of the Namibian Constitution declares that "All persons shall have the right to:

(e) freedom of association, which shall include freedom to form and join associations or unions including trade unions and political parties, and

(f) withhold their labour without being exposed to criminal penalties".

The other factor which surfaced as one of the reasons for suspension of national labour laws, as highlighted by this Study is the inability by developing countries to compete fairly in international market. This inability has motivated developing countries to relax or completely abandon their national labour laws and social protection. In defending EPZs, Kearney as quoted by World News (2002) said "It was not the intention that zones should become states within states. These days the only way to attract foreign investment is to surrender part of your sovereignty". This position has been seriously rebuked by LaRRI and NUNW to be unfair.

(ii) Does the suspension of labour laws, social protection and other civil rights in EPZs in itself encourage FDI?

Throughout the research process this study did not find empirical evidence indicating that the answer to this question is in the affirmative. Only ODC and NIC representatives who attempted to imply that restrictions of union activities and investors' assurance of non-applicability of the Labour Act in the zones led to the realization of EPZ regimes in Namibia. Even though, ODC and NIC representatives were still unable to clearly and unequivocally show proof that the first investors in the zones came primarily because of the suspension of labour laws and social protection. However, the Study found that writers like Tandon argued that "it became clear that the very assumption that FDIs are necessary for development of Africa (or for the developing countries generally) was itself at best untested theory, and worst a plain inversion of the truth that it was growth that attracted FDIs and not FDIs that brough growth" (Tandon 2000:). In fact, Tandon posed his own question as follows: "From a national rather than TNCs point of view should not "reinvested earnings" be considered as domestic savings rather than as fresh FDIs?" This question is what Jauch found to be not adequately dealt with by governments and advocates for FDIs because local generated or local "reinvested earnings" are allowed to fly out of the country. Whatever position one may take, FDIs are not necessarily results of EPZs.

According to the Namibian Economist (20 September 2002), Namibia was one of the African countries cited in the WIR with an improved FDI performance index ranking which shows potential to attract investments. It further went on to attribute this performance to the "biggest investment in Namibia last year was the US$250 million", by the Malaysian company Ramatex. This information was also repeated by New Era (23-26 September 2002). The New Era wrote by quoting an official of the NIC that "In this regard, the N$1.2 billion investment by Ramatex and associated companies in a 65 hectare textile and garment manufacturing ... is a direct result of Namibia's duty and quota free access to the US market under AGOA and EU market through the Cotonou Agreement".

The WIR as quoted by New Era (23-26 September 2002) further made an interesting point that most of the winners identified have established EPZs or other schemes that share some characteristics and a number of them account for a large share of non-resources-based manufactured exports. This statement acknowledged the fact that there is no concrete information and data to strongly link FDIs to EPZs alone. Hence, it is not correct to conclude that there is a scientific correlation that the suspension of labour laws and social protection dialogue encourages FDIs. As it can be seen, other investments have also encouraged FDIs in their own right.

During the investigation, the Study however found that some 135 companies did apply for EPZ status. Out of this total, 34 EPZ applications were rejected, 101 enterprises, both domestic and foreign have been granted EPZs, 20 companies are currently active in the EPZ regimes. These companies are expected to invest a combined total of N$10.7 billion in manufacturing activities, representing 99.1% of total investment by EPZ companied in the Namibian economy (EPZ Progress Review: September 2002).

The projection above is quite encouraging but EPZs cannot be the only sources for FDIs because there are sectors or industries like meat, fishing, etc. without EPZ status which are also capitalizing on AGOA arrangements and Cotonou Agreement with EU. This presented yet another evidence that it is a policy fallacy for someone to argue that suspension of labour laws and social protection dialogue in EPZs does or can, in fact, encourage the flow of FDIs into developing countries. The correct evidence is that EPZs do obviously contribute to FDIs but not because of the suspension of national labour law and social protection but because of other factors such as good infrastructure, access to financial market, locality, motivated and skilled human resources, tax holidays or heavens, improved import and export laws, efficiency, etc. This observation has been corroborated by the manageress of a textile company during the discussion that efficiency, locality of zones, among others, can attract and encourage foreign investments to choose Namibia instead.

(iii) Does the suspension of labour laws, social protection and other rights contribute to EPZs comparative and competitive advantage?

There are different views on this question. The first impression one can easily get from literature consulted and interviews which were conducted is that comparative and competitive advantage is subjective. It is subjective in the sense that it depends from country to country and investor to investor.

If one looks at Flynn, Caspersz and Forbel et al, it is quite clear that negative or unacceptable labour practices such as cheap labour, the suspension of labour laws and social protection, long working hours, unskilled but yet abundant labour, etc. were seen and actually marketed as comparative advantage. The reasons, as it was found, developing countries were desperately looking for investments to such an extent that the race has to get to the bottom. Namibia itself tried this route through outright enactment of the law lifting away labour and social protection which was provided for by the Labour Act. Namibia went further to proudly developing countries. The correct evidence is that EPZs do obviously contribute to FDIs but not because of the suspension of national labour law and social protection but because of other factors such as good infrastructure, access to financial market, locality, motivated and skilled human resources, tax holidays or heavens, improved import and export laws, efficiency, etc. This observation has been corroborated by the manageress of a textile company during the discussion that efficiency, locality of zones, among others, can attract and encourage foreign investments to choose Namibia instead.

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On the other hand, as Njungan (2002), Chuma-Nkandawire (2002), Prokopenko (2002), and the interview with former NUNW executive (2002) all stressed that, competitive advantage is much dependent on issues that are contemporary. These issues have been restated over and over again and they include but not limited to:-

skilled or highly trained human capital, good infrastructure such as telecommunications, road infrastructure, etc., access or availability of technology and innovation, access to finances and functional market institutions, respect and maintaince of law and order, guarantee of human rights and other civil liberties, highly motivated and productive workforce, organized labour for dialogue and collective bargaining (freedom of association), and clear labour market policies.

These are considered as some of the necessary ingredients which form or make up the competitive advantage package as opposed to the comparative advantage which violates national labour laws and social protection.

# CHAPTER FOUR

## 4. Conclusions and Recommendations

EPZs are essential and appropriate economic and investment strategies. As an attempt by developing countries to attract foreign investors, create and maintain investor confidence is acceptable but these countries are expected to at least have something to offer. The offer is usually in the form of what is known as a special incentive package. It is however the policy that is behind these strategies which need to be revisited or reshaped in m any developing countries including Namibia.

The incentive packages understandably have to be packaged or arranged in such a way to out compete other developing countries which are also in the competition field for investment. The main driving force behind EPZs incentive package is a variety of social challenges such as high rate of unemployment, stagnant economic growth, and lack of manufacturing sector, low prices of raw materials at world market, lack of human resources development and overall decline of living standards of citizens.

All these and other challenges are largely attributed to an overall lack of industrialization in developing countries. This in itself implies that developing countries have to act now if they are to overcome some of these challenges. Governments though react through appropriate policy formulation and implementation. It is the policies and strategies which, governments themselves have adopted in enticing foreign investors into the zones that were found not to be inappropriate.

In countries that have introduced EPZ concepts, many were found to have outlawed labour laws and suspended social protection as policy alternatives and economic development strategy towards industrialization. This was also the case in Namibia until the mid 2001 when the prohibitive clause was not re-enacted. It has been found that it is not preferred for governments to correct suspend or not to enforce labour laws and social protection in order to attract foreign investments. Workers or union rights and social protection are necessary for social development. It is known that workplaces where the employees have exercised their right to organize tend to be better at innovation, adaptation and productivity because it is just a matter of human management and this can be fully compatible with freedom of association and collective bargaining as it was found by ILO. Therefore suspension of labour laws and other civil rights is not a solution in search for investment and industrialization. Increased, knowledge and skilled human resources are found to be some of the central factors in search for foreign direct investment which can enhance industrialization and the fight against unemployment and under development.

It is therefore important for Namibia to refocus its industrialization concept and programme based on both comparative and competitive advantage which is compatible with its constitution and, at the time, with the internationally accepted principles and rights.

Namibia stands to gain comparatively if it based its industrialization programme on some of the following factors:-

(i) availability of land at a relatively affordable price,

(ii) accessibility to modern ports of Lüderitz and Walvis Bay,

(iii) availability and readiness of trainable workforce (mostly with grade 12 or national diploma in relevant subjects),

(ii) vast and large tracks of wilderness and unspoiled national parks and community conservancies,

(iii) favourable climatic conditions especially for Aussenkehr farming area,

(iv) strategic locality between two potential big regional markets of Angola and South Africa, etc

Competitively, Namibia has to capitalize on favourable trade arrangement with the big markets of America and EU through AGOA and Cotonou Agreements. Good infrastructure such as tarred roads; uncongested airports and harbours with good rates; excellent telecommunication facilities, the standard banking facilities and access to finance; highly motivated and skilled human resources although small, but still available mainly in health and educational sector; and responsible, accountable, transparent, efficient and less corrupt public sector, etc. can all make Namibia more competitive within the region and beyond.

What is needed is sound macro socio-economic policies equally reinforced by practical labour market policies taking into account a large number of issues and concerns of both government, trade unions, employers and to a certain extent that of other stakeholders like civil society in a form of social dialogue. Macro socio-economic and labour market policies are necessary for economic development. Investments must be seen in this light as all inclusive. Sustainable investments can be realized without much friction and fear if all concerned are involved through consultation and where possible negotiations. Social dialogue is present in Namibia in the form of a tripartite LAC under the Ministry of Labour. However, policy makers for investments and economic development have made little or no effort at all to utilize this body for its diversity and sometimes researched inputs.

As much as foreign investments need assurance and protection from the government, so employees do and their unions from exploitation. This fact cannot be easily ignored otherwise industrialization process cannot balance on economic and social development scale. The desired and envisaged positive results of EPZs may probably not be realized if the zones themselves are perceived to be anti union and socially insensitive and where government is not prepared to protect the vulnerable and weak.

When it comes to foreign investments attraction strategies, conflict of interest is evident because violations or restrictions of labour laws in EPZs are condoned and permissible by governments. Instead of enforcing laws in EPZs, authorities suspend them in favour of investors. This line of thinking is self destructive and tantamount to relegation of state responsibility of protection all citizens.

As much as FDIs are needed they should be properly regulated and where possible articulated through national consultation and monitoring mechanism. It would be beneficial for the ODC, NIC and the tripartite LAC to coordinate, interact and jointly organize debriefing investment meetings. This combined effort can explain, clarify and dispel unfounded fears and wrong perceptions about trade unions and their activities. The same strategy can also be used to impress upon investors to ensure best business practices and business ethnics with emphasis on ILO international labour standards.

From the general perspective, Namibia need not to compromise on good and protective national labour laws in favour of foreign investments in EPZs. Namibia needs only to work extra hard in areas where it is lacking behind such as the improvement of human resources development base, stopping export of raw or semi processed materials in order to add value locally and in the process create additional jobs. Namibia stands a good chance to be one of the leading competitive countries without sacrificing some of its basic labour laws, such as the Labour Act.

The overall conclusion which can be drawn as a result of this study is that contrary to perceptions and assumptions, investors are not attracted to EPZs by the suspension of national labour laws, social protection and other civil rights. Investors as it has been found during the investigation, are in fact, attracted by and interested in good returns of their investments. Investors are looking at a wide range of factors which can enable them to compete effectively in the world market.

It is therefore important for future researches to try and investigate whether EPZ created more job opportunities than other investment areas outside EPZs. It would be also interesting to examine as to what extent training and transfer of technology have taken place in the zones in Namibia since 1996. Depending on the outcome of future researches, it is important and crucial for policy makers to keep on reviewing investment and industrialization policies and strategies.

By making a review of the policies and strategies, Namibia will be in a better position to adjust its policies accordingly. This will enable Namibia to keep pace with developmental strategies as the world keeps on changing within the framework of globalization. Institutional framework like the tripartite Labour Advisory Council and Presidential Economic Advisory Council can be tasked to keep policy makers informed on a number issues which required policy formulation or reformulation and implementation.

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