Attracting Foreign Investment at all Costs?
The Case of Export Processing Zones (EPZs) and Ramatex in Namibia

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Introduction

Since the mid-1990s, the idea of establishing Export Processing Zones (EPZs) has found support among several governments of Southern Africa. This development is linked to the increasing acceptance of "globalisation" and neo-liberal policies across the region. Attempts to become "internationally competitive", to move towards export-led growth, and structural adjustment programmes (SAPs) are now characterising most Southern African countries and most governments regard EPZs as a suitable strategy to find a "niche" in the global economy. The World Bank regards the introduction of EPZs as a signal of a country's departure from import substitution towards an export-oriented economy (World Bank 1991). In other words, EPZs are seen as a first step in the process of liberalising trade and integrating national economies into the global economy. Ultimately, the whole country is supposed to operate like an EPZ.

The governments of Southern Africa are justifying EPZs by claiming that they will bring foreign investment, new industries and jobs to their countries. Zimbabwe, Namibia, Malawi and Mozambique have already passed national EPZ laws and EPZ proposals "in disguise" are even appearing in South African policy documents. This article examines some of the recent EPZ developments in Namibia with particular emphasis on the Malaysian clothing and textile company Ramatex.

Global Experiences

Export Processing Zones are not a new phenomenon and, according to the ILO, the first zone was set up in 1929 in Spain. The 1970s then saw the EPZs boom, mostly in developing countries of Latin America, the Caribbean, Asia and to a lesser extent Africa (ILO 1998). A common characteristic of EPZs is the provision of special incentives to attract (mostly foreign) investment for export production. These incentives range from tax holidays, duty-free exports and imports, free repatriation of profits to the provision of infrastructure and the exemption from labour laws. However, there are differences in the way countries set up and operate their EPZs. Some operate as fenced-in zones, others are single factories that were awarded EPZ status (Export Processing Units – EPUs) and others are part of industrial parks or special economic zones (Jauch and Keet 1996). China alone has 7 different types of zones ranging from industrial parks to entire cities and high technology zones (ILO 1998). These differences have resulted in great difficulties to establish the exact number of EPZs and EPZ workers worldwide with estimates ranging between 4 and 27 million (ZCTU 1994, ILO 1998).

At first sight, it thus seems that EPZs created a significant number of jobs. This might be the case in some countries, but a closer examination reveals that jobs created through EPZs are often not cost-effective and of poor quality. Also, EPZ host countries incur two types of costs. Firstly, the direct costs for establishing EPZ infrastructure and subsidised services. Secondly, the indirect costs in the form of foregone government revenue and national income as a result of exemption from taxes, import and export duties etc. The Kenyan government, for example, spent 40 billion shilling on establishing EPZs but created only 2000 new jobs. It could thus be argued that many more jobs could have been created if this money had rather been spent on job creation in the small scale manufacturing sector or other large job creation programmes in the broader economy (ZCTU 1994).

In addition, it needs to be pointed out that EPZ jobs are not always new jobs, but are sometimes created at the expense of existing jobs outside the zones. In Mexico, for example, employment in the EPZs ("maquiladoras") grew by 10,4% in 1995, but this was accompanied by job losses of 9% in Mexico's manufacturing industries outside the zones. In other words, employment in manufacturing industries shifted towards the EPZ sector without increasing the total number of jobs (ILO 1998). This process was described as the "maquiladorisation" of the Mexican economy and has not resolved the overall problem of unemployment.

The question of labour standards continues to be one of the most controversial aspects of EPZs. An ILO report (1998) noted that collective bargaining and sound tripartite relations are extremely rare in EPZs. Instead, high labour turnover, absenteeism, stress, fatigue, low productivity and labour unrest still characterise most EPZs. Many EPZ companies try to compete in a globalising market on the basis of cheap prices. They try to improve their performance by intensifying work, thus putting more pressure on workers to reach higher production targets. Although EPZ wages are sometimes higher than comparable wages outside the zones, this is often achieved through piece-rates and production incentive schemes that increase the take-home pay at the expense of longer hours and more intensive work. Due to the generally low wage levels, workers are amenable to working extra hours – just to make ends meet. In Nicaragua, for example, women workers in the EPZ garment industry work 12 – 14 hours per day to earn US$ 140 per month (ILO 1998).

EPZ investors are often hostile towards trade unions and express strong opposition to international labour standards. An ICFTU survey on trade union rights in EPZs in the early 1990s noted that *"the danger facing the free trade union movement is that EPZs became established as links in a global chain used by internationally mobile capital to set off a competitive downward spiral in the observance of international labour standards"* (1991). The extreme competition for foreign investment between EPZ host countries, and their willingness, in the process, to compromise on worker rights and conditions poses a threat to the established achievements and continuing work of trade unions in such countries. In most cases, it is a question of host governments not exerting themselves to monitor and enforce national labour legislation within EPZs, even where national labour legislation formally applies, for fear of frightening off the foreign investors (Jauch and Keet 1996).

Southern Africa's First Casualty: Labour Rights

The suspension of national labour laws as an incentive for investors became reality in Zimbabwe and Namibia when they passed their national EPZ laws in 1994 and 1995 respectively. In Namibia, the government argued that both local and foreign investment in the first five years of independence had been disappointing and that EPZs were the only solution to high unemployment. President Sam Nujoma described the exclusion of the Labour Act as necessary to allay investors' fear of possible industrial unrest. He promised that regulations on conditions of employment would be put in place to address the fears of workers. In the meantime, however, he declared that "*the non-application of Namibia's Code in the EPZ Regime is a delicate compromise which is necessary to achieve the larger goal of job creation"* (The Namibian, 30 October 1995).

Namibia's major trade union federation, the National Union of Namibian Workers (NUNW), opposed the exclusion of the labour act as a violation of both the ILO convention and Namibia's constitution. The union federation instructed its lawyers to challenge the constitutionality of the EPZ Act in court. However, during a high level meeting between the government, the ruling SWAPO party and the NUNW, in August 1995, a highly controversial compromise was reached which stipulated that the labour act will apply in the EPZs, but that strikes and lock-outs would be outlawed for a period of 5 years (The Namibian 23 August 1995). Although this compromise was greeted with mixed responses from Namibian unionists, it was formally endorsed during a special meeting between the NUNW and its affiliates in September 1995.

In 1999, the NUNW asked the Labour Resource and Research Institute (LaRRI) to carry out a comprehensive study of Namibia's EPZ programme. LaRRI's study 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. At 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. The Ministry of Trade and Industry argued that it was too early to measure the success and failures of the programme, as EPZs would only show results in the long term. Citing Mauritius as the example to follow, the Ministry claimed that the island had to wait 20 years to see positive results.

Desperate to show some success of the EPZ programme, the Ministry then granted EPZ status to a poultry plant in Karibib (western Namibia) as well as mining companies like Ongopolo (copper mine in Tsumeb, northern Namibia) and the Skorpion Zinc mine and refinery in southern Namibia, owned by the Anglo American Corporation, which invested US$ 454 million. The Skorpion project is expected to employ over 500 people and to contribute about US$ 118 million annually to Namibia's GDP which would mean an increase of 4-5% (Namibia Economist, 20-26 July 2001). Although the mining companies Ongopolo and Skorpion Zinc obtained EPZ status for their processing operations only, it is likely that they will use the EPZ status to gain tax exemption for a significant part of their overall profits through accounting tricks like transfer pricing.

Integration into a global production network

By 2001, Namibia still had not managed to attract any large production facility through its EPZ programme. This changed when the Ministry of Trade and Industry announced that it had succeeded to snatch up a project worth N$ 1 billion[1] (US$ 143 million) ahead of South Africa and Madagascar, which had also been considered as an investment location by the Malaysian clothing and textile company Ramatex. This was achieved by offering even

[1] The Namibia Dollar (N$) is pegged to the South African Rand and the exchange rate to the US$ stood at 7 – 1 in August 2007.

greater concessions than those offered to other EPZ companies, such as corporate tax holidays, free repatriation of profits, exemption from sales tax etc. Drawing in the parastatals providing water and electricity (Namwater and Nampower) as well as the Windhoek municipality, the Ministry put together an incentive package which included subsidised water and electricity, a 99-year tax exemption on land use as well as over N$ 100 million (US$ 14,3 million) to prepare the site including the setting up of electricity, water and sewage infrastructure. This was justified on the grounds that the company would create 3000 - 5000 jobs during the first two years and another 2000 jobs in the following two years. The plant (which represents the first textile company in Namibia) turns cotton (imported duty free from West Africa) into textiles for the US market. Ramatex' decision to locate production in Southern Africa was motivated by the objective to benefit from the Africa Growth and Opportunity Act (AGOA) which allows for duty free exports to the US from selected African countries who meet certain conditions set by the US government. These conditions include commitment to a "free market economy" (including privatisation), the elimination of barriers to US trade and investment, protection of intellectual property rights, the elimination of subsidies and price controls etc. (Jauch and Shindondola 2003; Jauch 2006a).

Who is Ramatex?

Ramatex Berhad was established in 1982 as Gimmill Industrial (M) Sdn., a small textile manufacturing plant in Batu Pahat, Malaysia. The Ramatex Group, as it is now known today, expanded vertically from dyeing and knitting mills into yarn manufacturing in 1989 and continued its growth into finishing fabrics and printing in 1992. On November 12, 1996, the Ramatex Group was officially listed on the Kuala Lumpur Stock Exchange. Ramatex is the undisputed leader in the Malaysian textile industry. Today members of the Ma Family who originally set up the business are still the majority shareholders, owning 59 percent. They also still play an active management role (Mollet 2001).

With a turnover of over U$ 200 million a year, the Ramatex group currently operates from manufacturing facilities in Malaysia, China, Singapore, Cambodia, Mauritius and Namibia. The company has similar operations in all countries consisting of spinning mills, knitting plants, dye and print houses and sewing plants (www.ramatex.com.my).

Ramatex in Namibia

Even before the company began its operations in 2002, it made headlines, as it became the most talked about investment in Namibia. The debate around Ramatex revolved around the massive size of its operations, the establishment of a new industry and the controversies surrounding the company's environmental impact and working conditions. Due to its massive operations, government expected that this particular investment would help reduce the high unemployment rate in Namibia.

A study carried out in 2003 by Namibia's Labour Resource and Research Institute (LaRRI) found that:

- Ramatex workers earned very low wages. Workers who had completed training earned N$3-00 (US$ 0,43) per hour, for overtime they earn an extra N$1.50 (US$ 0,21). Trainees receive N$ 1.50 per hour plus 75 cents for overtime. Even when working long hours of overtime, workers only received about N$ 700.00 (U$ 100) per month.
- Most workers were forced to work overtime to supplement their basic salaries so that they could cover their basic expenses such as rent, water, food and transport. Most workers still had to share their limited income with their extended families and children.

- Both low salaries and long working hours had a severe impact on Ramatex workers. Due to low salaries, most workers had to walk long distances to and from work, which was not only exhausting but posed a safety risk, particularly for women.
- Workers were not provided with protective clothing, which they regarded as a basic necessity when working at Ramatex. Some workers had developed chest problems whereas others had allergic reactions due to exposure to the dust from the fabric. This created another burden for the workers because they had to cover their own medical costs.
- Work-related accidents were a common occurrence. One worker lost a finger after she was cut by one of the machines. Another had an injury to her eye caused by a needle. Workers reported that the company treated sick leave as unpaid leave – in violation of Namibia's labour act.
- Workers further complained about the humiliation they had to endure when they were searched upon entering and leaving the factory and even when visiting the bathroom. Women workers were particularly concerned about the body searches and indicated that it was uncomfortable for them, especially during their menstrual cycles.
- Workers experienced inhumane treatment from their supervisors. They felt trapped because they could not take their grievances to their supervisors in whom they had no confidence. Some workers who asked for compassionate leave were told to go and never come back.
- Workers were verbally abused by their supervisors, who described them as "lazy and useless" (Jauch and Shindondola 2003).

Economic significance of Ramatex

At the height of their Namibian operations in 2004, Ramatex and its subsidiaries employed about 7000 workers, including over 1000 were Asian migrant workers, mainly from China. Following retrenchments in 2005 and 2006 (including the closure of one subsidiary), this number dropped to 3 400 (including 400 Asian migrants) in early of 2007.

All Ramatex products are currently exported to the USA but figures about volumes and sales are not made public. As an EPZ company, Ramatex does not pay any import and export duties nor any corporate tax and thus it does not contribute towards government revenue. However, the Ministry of Trade and Industry claims that the company created many indirect jobs, for example in the transport industry, which moves containers between Windhoek and the port of Walvis Bay. The number of indirect jobs is difficult to quantify although some transport companies certainly benefit from Ramatex' presence.

Asian migrant workers

Namibian immigration laws and regulations as well as the country's Affirmative Action (Employment) Act of 1998 prescribe that work permits for foreign nationals shall only be issued if the required skills cannot be found locally. In addition, employers are requested to employ Namibian understudies to ensure skills transfer. Against this background, it is unusual that Ramatex was allowed to import a large number of Asian migrant workers. Most of them were employed as mere production workers with basic salaries of around U$ 300 - 400 per month plus payment for overtime work. Their salaries were thus higher than those compared to their Namibian counterparts and the company obviously believed that Asian workers were more productive.

There are also indications that the import of Asian workers served the company's strategy of "divide and rule". Workers were divided according to nationalities, they received different remuneration and benefits and they found it hard to communicate with each other. As a result there was hardly any joint action by the Ramatex workers. Protests over working conditions over the past few years by Namibian, Filipino and Bangladeshi workers were isolated from each other and workers found no support from the Chinese. Chinese workers were fairly content with their working conditions and merely try to save as much money as possible through excessive overtime during their 2-3 year contracts (LaRRI 2005).

Labour realtions

When Ramatex started its operations in early 2002, it refused the union access to its premises, forcing union organisers to meet workers outside the factory during lunch breaks and after working hours. As workers suffered from skin rashes and allergies due to dust particles, coupled with very low wages and unfair labour practices, tensions boiled over. In August 2002, more than a thousand Ramatex workers downed tools in protest against their work contracts, which they believed set their monthly salary at N$ 360 (US$ 51). The strike was abandoned when their trade union (the Namibian Food and Allied Workers Union - NAFAU) and the Ministry of Labour intervened to allay workers' fears. Ramatex promised that workers would receive performance-related pay on top of their basic N$ 360, which would bring up their salary to around N$ 800 (US$ 114) per month. The company agreed to take the striking workers back and announced that workers would be paid N$ 3 (US$ 0,42) per hour plus production-related incentives.

In April 2003, tensions boiled over once again. Following a spontaneous strike over poor wages and conditions of service by over 3 000 workers, the Ramatex management closed the factory for two weeks and threatened to "eliminate" the architects of the strike. The company also declared its intention to fire all workers. NAFAU tried to negotiate the re-opening of the factory but was unsuccessful and was even accused by some workers of selling out their demands.

When the factory re-opened its doors on 28 April, Ramatex wanted to fire 600 workers whom they accused of "masterminding" the strike. After negotiations between the company, NAFAU and the Labour Commissioner during which Ramatex was (once again) reminded about Namibia's labour laws, workers were issued with new contracts. The company also accepted that all accused workers would have to be given fair hearings.

However, in May 2003, Ramatex suspended 416 workers (without pay) accusing them of masterminding the strike. Shortly afterwards, several hundred Asian workers downed tools demanding wage increases and better conditions of service. This strike lasted just a few hours and was kept under wraps by the company, which did not even report it to the Ministry of Labour. The company claimed that some Buddhist workers wanting to observe the religious festival of "Wesak" prompted the work stoppage. However, this explanation was contradicted as Ramatex dismissed seven of the striking Asian workers and sent them back home.

In October 2003, Ramatex and NAFAU signed a recognition agreement, which was supposed to pave the way for improved labour relations and collective bargaining. The company agreed that workers could elect two full-time shop stewards and one union official who were supposed to be provided with a fully furnished office on the company premises. However, despite the recognition agreement and the promises made by the company, NAFAU was unable to make progress on substantive issues. On several occasions, NAFAU reported Ramatex to the Office of the Labour Commissioner for unfair labour practices and the company's unwillingness to negotiate in good faith. Despite several attempts to find a solution through mediation, no agreement was reached.

By September 2006, the company had made no improvements to wages and benefits and claimed that its operations in Namibia were running at a loss. Ramatex' workers, however, had run out of patience and declared that they would go on strike unless their wages were significantly improved. When the company refused to meet their demands, they went on strike in October, bringing the operations to a standstill. Within 2 days, workers achieved what 4 years of negotiations had failed to deliver: Wage increases of 37% plus the introduction of housing and transport allowances, plus a pension fund and an optional medical aid scheme (Jauch 2006b). Thus workers won a significant improvement of their working conditions, although Ramatex still pays below the minimum wages applicable to most other industries in Namibia (LaRRI 2006).

Recent developments indicate that Ramatex will continue shifting its production to Cambodia and China while downscaling its operations in Namibia. Workers noted that further machinery was shipped out during 2007 as the company closed its textiles, spinning and knitting departments. Most of the remaining workers are now working in the sewing department and further retrenchments seem likely (Namibian 27 July 2007).

Conclusion

Ramatex represents a typical example of a transnational corporation playing the globalisation game. Ramatex' operation in Namibia have been characterised by controversies, unresolved conflicts and tensions. The anticipated benefit of large-scale job creation to lift people out of poverty has not been fulfilled. Instead, Ramatex has contributed to the establishment of a large number of "working poor": workers in full-time employment, unable to meet even their basic needs. This is in sharp contradiction of the Namibian government's stated objective of promoting decent work in line with ILO standards.

Namibia's experiences with EPZs in general and Ramatex in particular point to the urgent need to ensure (at the very least) compliance by foreign investors with national laws and regulations, workers rights, as well as environmental, health and safety standards. Experiences elsewhere have shown that compromises on social, environmental and labour standards in the name of international competitiveness lead to a "race to the bottom". The Namibian government as well as trade unions will have to demonstrate that they are serious in defending these rights that were only won through long and bitter struggles.

There are, however, limits to what can be achieved at the national level and trade unions have to deal with transnational corporations like Ramatex and the consequences of globalisation at 2 additional levels. Firstly, they need to tackle these highly mobile corporations through cross-border bargaining and pressure as attempted by the Global Union Federations (GUFs). In the case of Ramatex, the International Textile, Garment and Leather Workers Federation (ITGLWF) brought together unions from all countries where Ramatex operates in an attempt to facilitate the sharing of experiences and to develop strategies how to tackle the company jointly. This includes the "upward harmonisation" of labour standards and a standard recognition agreement for all Ramatex plants. Although this aim was not yet achieved, such co-ordinated global strategies are undoubtedly a key component of trade union struggles with global corporations.

Secondly, trade unions will have to tackle the fundamentals of the neo-liberal global order. EPZs as a development strategy for Southern Africa are often promoted on the basis of the Mauritian model. Such comparisons not only ignore the very specific conditions that prevailed on the island (such as a comparatively high level of education and an established local business community), but also the very different global conditions, which prevailed when Mauritius embarked upon its EPZ programme 30 years ago. Today's attempts by Southern African states to introduce EPZs as a solution to economic problems is not only bound to fail, but is likely to threaten attempts towards regional economic integration. EPZs deepen developing countries' dependency on foreign capital and can have a detrimental effect on national industries. The case of Namibia exemplifies how EPZ incentives are likely to attract companies who are interested to exploit them for short-term gains without being prepared to contribute to technology or skills transfers.

Southern Africa (like other regions) is facing a highly competitive - in fact ruthless - global economy. At a time when Southern Africa is still trying to establish EPZs, they are already superseded by more sweeping neo-liberal policies which create ever more favourable conditions for international capital. Today's global production chains are no longer targeting merely cheap, compliant labour and a trade union free environment. Instead, human resource development and market access are major considerations for investment decisions. Investors do not only consider low nominal wages but increasingly measure unit labour costs, taking productivity and skills availability into account. However. Southern Africa still tries to attract EPZ investments on the basis of cheap labour, which will attract only the most exploitative investors.

The lack of alternative programmes for effective economic development and job creation places governments in a weak position to negotiate adherence to labour, social and environmental standards with foreign investors. This has to be the starting point for breaking the chains of dependency. The project on Alternatives to Neo-Liberalism in Southern Africa (ANSA), for example, is an attempt to develop a different and comprehensive development strategy for the region. Southern Africa simply cannot afford a continuation of the free reign of capital and its exploitative practices. Instead, we need an interventionist, developmental state and mechanisms of democratic control to ensure people-centred development.

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