Namibia’s EPZ policy: an expensive failure

Herbert Jauch, 25 February 2020

Government’s ability to learn lessons from policy failures has been less than impressive. Exactly 25 years after passing the Export Processing Zones (EPZ) Act in 1995, the Finance Minister has now admitted that this policy which granted special incentives and tax exemptions to foreign investors has been a failure. Instead of attracting investments into manufacturing ventures the policy contributed to massive tax evasions by global corporations and eroded Namibia’s tax base. This insight comes 20 years too late and the disastrous consequences of the EPZ policy could have easily been avoided had government been willing to listen to the empirical evidence and critique that was provided over the years.

It is worth recalling that when Namibia passed the EPZ Act in 1995, the government argued that EPZs were the only solution to high unemployment. The EPZ Act offered a host of special incentives to foreign investors and Government expected the creation of 25 000 new jobs in the EPZs within 5 years. However, an independent study by Namibia’s Labour Resource and Research Institute (LaRRI) in 2000 found that only about 400 EPZ jobs had been created although millions of dollars had been spent on promoting the policy and on developing infrastructure with public funds.

Instead of admitting the policy failure then, Government argued that the EPZ regime needed more time to show the expected results. Reference was frequently made to the example of Mauritius but EPZ proponents overlooked the particular circumstances of Mauritius and the global environment at the time. Other African experiences sounded a warning. Uganda, for example, experienced that EPZ jobs were temporary and that it was virtually impossible to convert them into permanent, decent jobs. By their very nature, EPZs are highly exploitative production sites and form part of a global “race to the bottom” as far as labour and environmental standards are concerned. EPZs also contribute to the further concentration of wealth in the hand of global corporations who are subsidised with public funds by desperate developing countries who believe that they need to attract foreign investments at all costs.

Perhaps, the most well-known EPZ company in Namibia was the Malaysian textile company Ramatex whom the Namibian government offered even greater concessions besides corporate tax holidays, free repatriation of profits, exemption from sales tax etc. Drawing in the parastatals providing water and electricity as well as the Windhoek municipality, government put together an incentive package which included subsidised water and electricity, a 99-year tax exemption on land use as well as over R 100 million in public funds to prepare the site including the setting up of electricity, water and sewage infrastructure. In return, Ramatex was expected to create 10 000 jobs by turning imported cotton into textiles for the US market.

The reality turned out to be quite different and gross violations of workers’ rights accompanied the Ramatex operations from beginning to end. These included forced pregnancy tests for women who applied for jobs; non-payment for workers on sick leave; extremely low wages without benefits; insufficient health and safety measures; no compensation in case of accidents; abuse by supervisors; and open hostility towards trade unions. Tensions boiled over on several occasions as the company was unwilling to address the workers' concerns.

At the height of their operations in 2004, Ramatex and its subsidiaries employed about 7000 workers, 5000 of whom were Namibians. The total number of workers dropped to about 3000 after retrenchments between 2005 and 2007. In 2008, the company closed its operations virtually overnight without notifying its staff or the Namibian government. Production was simply shifted to another desperate low wage country, Cambodia. Namibia was left to deal with the fall-out of this disastrous venture such environmental pollution from the company's dying plant which polluted ground water resources and the water of the Goreangab dam which is unusable up until this day. Also, hundreds of workers were left with severe health problems (mostly lung-related) due to poor health and safety standards that had prevailed inside the factory.

Instead of realising the disastrous consequences of the EPZ policy, the Namibian government branded critics a "threat to the national interest" and dished out EPZ status even to companies in the mining sector. Foreign companies operating the copper smelter in Tsumeb and the zinc smelter in Rosh Pinah became EPZ beneficiaries depriving the Namibian state of millions (if not billions) of N$ in lost tax revenue.

At a time when Namibia is facing a massive economic crisis and seems unable to even provide essential medicines to clinics and hospitals, questions must be asked why a policy that only serves corporate interests was allowed to continue for 25 years? Will the new proposed Special Economic Zone (SEZ) regime be just a continuation of the EPZs under a new name? Was the EPZ policy only abolished because the EU blacklisted Namibia as a tax haven? Most importantly, why does government still have a blind faith in the logic of global capitalism and the embedded notion that any investment is a good investment? Unless these questions are addressed, we are unlikely to learn any lessons from history.

Herbert Jauch was involved in various research projects on EPZs while working for the Labour Resource and Research Institute (LaRRI) from 1998 -2012. He now serves as chairperson of the Economic and Social Justice Trust (ESJT).