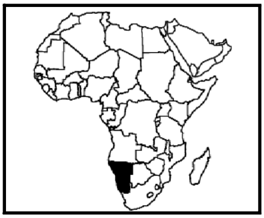

Export processing zones and the quest for sustainable development: a Southern African perspective[1]

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1. This paper draws extensively on a presentation by the author to the 1999 Labour Law Conference in Durban, South Africa.

2. World Bank (1991), *Export Processing Zones*, Washington DC.

SUMMARY: *This paper discusses why export processing zones (EPZs) provide little prospect for addressing Southern Africa's economic problems while also threatening not only labour standards but also greater regional cooperation. It describes the "race to the bottom" as governments in the region compete for foreign investment by lowering labour standards, often restricting union rights and offering incentives to foreign firms that are so costly that they greatly limit the net benefits of the new investments to the national or local economy (while providing considerable benefits for foreign investors and shareholders). The paper then examines in more detail the costs and benefits of Namibia's EPZs which, despite generous concessions and controls on labour unions, produced only 400 new jobs in the first three years compared to the 25,000 anticipated. It also explains how the granting of EPZ status to mining companies and refineries will diminish government revenues, and describes the heavy investment and costly incentives offered to attract a new textile company.*

I. INTRODUCTION

OVER THE PAST few years, 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 "globalization" and neoliberal policies across the region. Attempts to become internationally "competitive", to move towards export-led growth, and structural adjustment programmes (SAPs) now characterize 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.[2] In other words, EPZs are seen as a first step in the process of liberalizing 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, Zambia wants to follow soon and EPZ proposals "in disguise" are even appearing in South African policy documents. This paper looks at some of the recent EPZ developments in the region and highlights the broader implications of EPZs against the background of the current global economic order and attempts to achieve greater regional economic cooperation in Southern Africa.

II. 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 saw a boom in EPZs, mostly in low- and middle-income countries of Latin America, the Caribbean, Asia and, to a lesser extent, Africa.(3) 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 export and import and free repatriation of profits, to the provision of infrastructure and exemptions 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 have been awarded EPZ status ("export processing units" – EPUs) and others are part of industrial parks or special economic zones.(4) China alone has seven different types of zone ranging from industrial parks to entire cities and high-technology zones.(5) These differences have resulted in great difficulty in establishing the exact number of EPZs and EPZ workers worldwide. Available figures indicate that there are between 200 and 850 EPZs, employing between 4 and 27 million workers.(6)

At first sight, it thus appears that EPZs have created a significant number of jobs. In some countries, this might be the case but a closer examination reveals that jobs created through EPZs are often of poor quality and not cost-effective. EPZ host countries incur two types of costs: first, the direct costs for establishing EPZ infrastructure and subsidized services; and second, the indirect costs in the form of foregone government revenue and national income as a result of exemptions from taxes, import and export duties, etc. The Kenyan government, for example, has spent 40 billion shillings (approximately US$ 514 million at 2002 exchange rates) on establishing EPZs but only 2,000 new jobs have been created. It has been argued that many more jobs could have been created if this money had been spent on job creation in the small-scale manufacturing sector or other large job creation programmes in the broader economy.(7)

In addition, it needs to be pointed out that EPZ jobs are not always new jobs but are created sometimes at the expense of existing jobs outside the zones. In Mexico, for example, employment in the EPZs (*maquiladoras*) grew by 10.4 per cent in 1995, but this was accompanied by job losses of 9 per cent 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.(8) This process was described as the "*maquiladorization*" of the Mexican economy. The overall problem of unemployment has remained.

The question of labour standards and labour relations continues to be one of the most controversial aspects of EPZs. An ILO report 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 are still characteristic of most EPZs.(9) Many EPZ companies try to compete in a globalizing 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

3. International Labour Organization (1998), *Labour and Social Issues Relating to Export Processing Zones*, Geneva.

4. Jauch, H and D Keet (1996), *Export Processing Zones in Southern Africa: Social Political and Economic Implications*, ILRIG, Cape Town.

5. See reference 3.

6. Nel, E L (1994), "Export processing zones: international experiences and applicability in South Africa", *Development Southern Africa* Vol 11, No 1; also Zimbabwe Congress of Trade Unions et al. (1994), *Report of the Tripartite Study Tour to Mauritius and Kenya*, Harare; and see reference 3.

7. See reference 6, ZCTU (1994).

8. See reference 3.

9. See reference 3.

wages outside the zones, this is often achieved through piece rates and production incentive schemes that increase the take-home pay but require 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.[10]

The vast majority of EPZ workers are young women, especially in the electronics and textile industries. EPZ companies that are engaged in low-skill cheap-labour production regard women as better able to perform monotonous, repetitive work. Such young women are seen as docile and cheap workers with nimble fingers. In response to this stereotype, they are put into lower-status jobs that do not reflect their educational level or experience. Some authors have suggested that EPZ employment has improved the social status and economic power of women.[11] However, the general quality of EPZ jobs is very poor, not only because of low wages but also due to a lack of job security and a low level of skills acquisition. EPZ jobs can be described as "dead-end jobs" that do not offer any possibilities for promotion or professional development. Furthermore, the broader and longer-term social effects can be very negative. There is little permanence and few long-term prospects in EPZ employment.[12]

The unionization rate among EPZ women workers is low and "traditional" ways of recruitment have proven to be ineffective. Most unions are dominated by men and do not give the necessary attention to issues which are important to women. Male union leaders tend to consider women's issues in employment, such as equal wages, maternity leave or child care facilities, as secondary. They seem to be interested in female membership only when it increases the union's rank and file. As a result, women workers in some EPZs have developed alternative forms of organization which often have virtually no relations with trade unions. This poses a major challenge to the labour movement, which has to develop effective strategies not only to attract EPZ women workers but also to serve their interests.[13]

An ICFTU survey on trade union rights in EPZs noted that only a minority of countries have enacted specific laws which explicitly restrict these rights.[14] This, however, does not take into consideration violations of trade union rights that result from the nature of EPZs. Monitoring and enforcing national legislation regarding working conditions in EPZs is difficult. In the case of fenced-in EPZs, their physical demarcation, coupled with security guards and entry permit requirements, are major obstacles for trade unions in their efforts to reach and organize EPZ workers.

EPZ investors are often hostile towards trade unions and express strong opposition to international labour standards. A case in point is Pakistan where, for example, strikes are forbidden. The Pakistan government has told the ILO that it is not in a position to correct major legal violations of trade union rights in that country's EPZ because the repressive law in question represents a precondition set by foreign companies for investment.[15] Transnational corporations (TNCs) have also played a major role in maintaining abusive legislation in Malaysia. In countries such as the Dominican Republic and Sri Lanka, EPZ companies have made it clear that a "union-free" environment is crucial for their continued investment.

The ICFTU survey on trade union rights in EPZs notes that "...*the danger facing the free trade union movement is that EPZs became established as*

10. See reference 3.

11. Sherbourne, R (1993), *Export Processing Zones and their Relevance to Namibia*, NEPRU, Windhoek.

12. See reference 4.

13. Rosa, K (1985), "Organising women workers in free trade zones: Sri Lanka", *Women's Journal* No 4, September; also Rosier, M (1995), "Women organising in export processing zones" in Mulders, M and T Osch (editors), *New Trade Union Perspectives: Organising Women Workers in Agriculture, Export Processing Zones and the Informal Sector*, CNN and FNV, Amsterdam.

14. International Confederation of Free Trade Unions (1991), *Annual Survey on Violations of Trade Union Rights*, Brussels.

15. See reference 14.

links in a global chain used by internationally mobile capital to set off a competitive downward spiral in the observance of international labour standards."[16] 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. Most often, 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.[17]

16. See reference 14.

17. See reference 4.

III. 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. The exclusion of the provisions of the national labour Acts drew immediate criticism from the labour movements. The Zimbabwe Congress of Trade Unions (ZCTU) engaged in intense lobbying with government and even sought support among local businesses. After a tripartite delegation had visited the EPZs in Kenya and Mauritius in November 1994, a submission was made to government which argued that Zimbabwe's Labour Relations Act should apply because:

- it is no longer viable to compete on the basis of cheap labour as the global emphasis is shifting to technological capacity-building which requires skilled workers;
- cheap unskilled labour tends to produce poor-quality products, while high-value-added products from skilled workers are more competitive;
- poor working conditions provoke dissatisfaction and labour unrest as well as lower productivity and poorer product quality; and
- it is morally unacceptable to remove the gains Zimbabwean workers have made since independence.[18]

18. See reference 6, ZCTU (1994).

a. The case of Namibia

In Namibia, the exclusion of the labour Act has also been a topic of heated debate. 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: "*...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*."[19]

19. *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, SWAPO and the NUNW in August 1995, a highly controversial compromise was reached which stipulated that the labour Act would apply in the EPZs but that strikes and lock-outs would be

20. *The Namibian*, 23 August 1995.

outlawed for a period of five years.[20] 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 movement's research and education institute, the Labour Resource and Research Institute (LaRRI), to carry out a comprehensive study of Namibia's EPZ programme. LaRRI's study was published in March 2000 and found that EPZs had fallen far short of the government's expectations of creating 25,000 jobs and facilitating skills and technology transfer needed to kick-start manufacturing industries in the country. By the end of 1999, the EPZs had created very few jobs although millions of dollars had been spent on promoting the policy and on developing infrastructure with public funds. LaRRI's study received extensive media coverage and drew an immediate response from the Ministry of Trade and Industry which is in charge of the EPZ programme. The Ministry's Offshore Development Company (ODC) 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 ODC claimed that the island had to wait 20 years to see positive results.

However, the Namibian government had set itself the target of 25,000 EPZ jobs by the end of 1999 and LaRRI's study showed that only 400 jobs had been created. The study also pointed to poor labour conditions as a likely source of future conflict. Namibian unions were particularly opposed to the clause in the EPZ Act which made strikes and lock-outs illegal for a period of five years. The unions demanded that this clause be amended to grant the right to strike to all workers, including those in the EPZs. The country's biggest labour federation, the National Union of Namibian Workers (NUNW), tabled LaRRI's report for discussion in the tripartite Labour Advisory Council (LAC). The Council invited the ODC and the investment centre to provide additional information, and debated the merits of the EPZ programme. It then concluded that:

"*...the EPZ did not fulfil their aims and objectives with regards to creating 25,000 jobs within the first five years, increasing the amount of manufactured goods produced, expanding industrial development and assisting in the transfer of skills and technology in the zones. The Council was also concerned with the current clause in the EPZ Act suspending strikes and lock-outs in EPZs, which is in direct contravention of International Labour Standards, and especially the Freedom of Association Convention (No 87), which Namibia has ratified. The Council agreed to recommend to the Minister of Labour to advise parliament not to re-enact the clause in the EPZ Act which prohibits strikes and lock-outs in the zones…The Council also resolved to establish a tripartite task force to evaluate the general impacts of EPZ operations in Namibia and advise the Council accordingly.*"[21]

21. Labour Advisory Council, 5th Annual Report 1999.

Despite mounting scepticism about the EPZ programme, the Ministry of Trade and Industry was unwilling to review its policy. Angered by the questions raised and by the negative publicity received, the minister claimed in parliament that the EPZ had attracted investments of nearly R 300 million and created up to 1,000 jobs. The minister further lashed out at critics stating that: "*...attempts to paint the [EPZ] regime in a bad light, while laughable, must be seen as a danger to our national interest.*"[22]

22. *The Namibian*, 26 April 2000.

Desperate to show some success for the EPZ programme, the ministry has started to grant EPZ status to a poultry plant in Karibib (western Namibia) as well as to mining companies such as Ongopolo (a copper mine in Tsumeb, northern Namibia) and the Skorpion zinc mine and refinery in southern Namibia, which is currently being developed by the Anglo-American Corporation. Production at the Skorpion mine is expected to begin in December 2002 and attract investments of US$ 454 million (R 4.2 billion). The Skorpion project is expected to employ over 500 people and contribute about US$ 118 million (R 1.1 billion) annually to Namibia's GDP which would mean an increase of 4-5 per cent.(23) Although Ongopolo and Skorpion obtained EPZ status only for their processing operations, it is likely that they will use the EPZ status to gain complete tax exemption for their profits. Simple accounting tricks such as transfer-pricing will ensure tax exemption and deprive the Namibian state of tax revenue from the mining sector, which has so far contributed significantly to the national income. However, the Minister of Trade and Industry regards the Ongopolo and Skorpion zinc-mining ventures as proof that the EPZ programme is working. He indicated that without EPZ status, Skorpion would not have been a viable project. In a two-page advertisement that was placed in several newspapers, the minister wrote that these investments should silence the EPZ "*...detractors and restore confidence in the (EPZ) regime and in Namibia's capacity to attract investors of substance*."(24)

In a recent development, the Ministry of Trade and Industry announced that it had succeeded in capturing a R 1 billion project ahead of South Africa and Madagascar, which had also been considered as investment locations by the Malaysian textile company Ramatex. This was achieved by offering even greater concessions – above those granted to other EPZ companies. Drawing in the parastatals that provide water and electricity (Namwater and Nampower) as well as the Windhoek municipality, the ministry put together an incentive package which included subsidized water and electricity, a 99-year tax exemption on land use, and R 60 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 3,000-5,000 jobs during the first two years and another 2,000 jobs in the following two years. The plant will turn cotton into fabrics and the Namibian government hopes that, increasingly, local cotton producers will be able to supply the required cotton. Initially, all the cotton will be imported duty-free. Ramatex's decision to locate production in Southern Africa is believed to have been motivated by the wish to benefit from the Africa Growth and Opportunity Act (AGOA) which allows for duty-free exports to the USA.(25)

The Ramatex case is a classic example of SADC countries competing with each other in the "race to the bottom" for foreign investment. In Namibia, it was, however, portrayed as a major success. The Minister for Trade and Industry announced that negotiations and compromise was "the name of the game in business" which had won Namibia a billion-dollar manufacturing plant.(26)

On the other hand, the EPZ programme has continued to show weaknesses, which raises questions about its viability. The EPZ management company in Walvis Bay had to close down its offices and move to premises within the municipality as it failed to secure interest – and funds – from the private sector. In addition, one of the biggest EPZ investors in the town, Libra Bathroom Ware, retrenched 37 of its 72 workers in December 2000. The NUNW-affiliated Metal and Allied Namibia Workers Union (MANWU), which had just signed a recognition agreement with the company, was furious and pointed out that almost all retrenched workers were union members. The union regarded the retrenchments as a union-

23. *Namibia Economist*, 20-26 July 2001.

24. *The Namibian*, 27 September 2000.

25. *Namibia Economist*, 29 June-5 July 2001; also *The Namibian*, 2 August 2001; and *The Namibian*, 28 September 2001.

26. *New Era*, 13-15 July 2001.

bashing strategy aimed at punishing workers who had joined the union. The company, on the other hand, argued that the retrenchments were necessary to ensure the company's long-term survival. The managing director said that production had to be reduced from 4,500 manufactured units to 1,500 per month due to an extremely competitive world market, resulting in an oversupply of stock. He also stated that Namibian labour was not cheap compared with other countries and that this was the reason why the EPZ was not attracting new business.[27]

27. *The Namibian*, 6 December 2000.

Namibia's trade unions have been relatively quiet during the recent EPZ debates. They reiterated their demand for inclusion of the right to strike for EPZ workers, and the clause prohibiting strikes in EPZs was not re-enacted by the Namibian parliament. Thus, EPZ workers can now go on "legal" strike. However, the labour movement has not been very vocal on the broader negative implications of the EPZ programme. The NUNW found itself in a tricky situation alongside its affiliate, the Mineworkers Union of Namibia (MUN). Both unions own 10 per cent shares in Ongopolo Mining and Processing Limited which took over the Tsumeb copper mines from Tsumeb Corporation Limited (TCL) which had closed down its operations in 1998. Ongopolo is a joint venture between former TCL managers, the Namibian government, private investors and the union investment companies Labour Investment Holding (owned by the NUNW) and the Namibia Mineworkers Investment Company (NAMMIC), owned by the MUN. The general secretaries of the NUNW and the MUN serve on Ongopolo's board of directors, which is currently chaired by the NUNW secretary-general. As an EPZ company, Ongopolo enjoys corporate tax exemption and other EPZ benefits.

Undoubtedly, it was in the workers' interest to re-open the copper mine and smelter plant and it can be argued that the unions had to play an active part to ensure that this would happen after a closure of more than two years. It is, however, highly problematic that unions, through Ongopolo, have now bought into the EPZ policy and will thus be compromised if they want to question its viability. This is likely to lead to continuous debate about priorities and conflicts of interests arising from union investments. It would be self-defeating if unions' business involvement prevented them from criticizing questionable development strategies such as the EPZ programme. For now, it seems that Namibia – in particular the Ministry of Trade and Industry – will continue to invest significant resources into this programme despite the poor results of the first five years.

IV. GENEROUS INCENTIVES AND LOW WAGES

MOZAMBIQUE AND MALAWI also passed EPZ laws during the 1990s. Although they do not offer exemptions from labour legislation to prospective investors, they provide most of the typical EPZ incentives. Mozambique's investment law of 1993 reflects major concessions to foreign capital, as it treats foreign and national investors equally in terms of investment mechanisms as well as guarantees and incentives. For example, the government guarantees investors' property rights, the freedom to import equity capital, or to borrow. Investors are also exempted from customs duties and are given generous tax exemptions, especially during "*the period of recovery of investment expenditure*", which can last up to ten years. In addition, foreign investors may repatriate profits and royalties, and pay interest charges abroad. They may also repatriate their capital after liquidation or sale and are entitled to just and equitable compensation in cases of expropriation for "*absolutely necessary and weighty reasons of public and national interest, health and public order*".

Mozambique's EPZs are called "industrial free zones". As in Zimbabwe and Namibia, they can be either separate geographical areas or single factory units (EPUs). EPZ firms must produce at least 85 per cent of their products for export while the rest can be sold locally, subject to normal customs charges levied on imports of similar products. EPZ firms are exempted from customs duties on imports such as civil construction machinery and materials, as well as on raw materials used for export goods. There is no supplementary tax on profits for partners and owners of such firms in the first ten years of activity and EPZ firms pay only a small royalty fee (2-5 per cent) on their gross income. Mozambican EPZ investors can retain up to 20 per cent of their net profits in foreign currency.(28)

28. *Mozambique Inview* (1995), No 32.

Unlike Zimbabwe and Namibia, the regulations on EPZs in Mozambique state that labour legislation shall apply and that national minimum wages have to be observed. Other guaranteed working conditions include:

- 20 days annual leave plus 6 days mourning leave per year; but other special leave is deducted from annual leave;
- workers are guaranteed pay during leave and on "days in which the employer may not have work for the employees";
- after one year of service, workers are entitled to 18 paid days sick leave plus another 12 fully paid days in case of prolonged sickness; and
- women workers are entitled to two months fully paid maternity leave which can be taken before or after the birth, and pregnant women may not be involved in arduous work.(29)

29. See reference 4.

The regulations also provide safeguards that ensure that job creation in EPZs benefits Mozambican nationals. EPZ firms may not employ more than 10 per cent foreign workers and the employer must guarantee the training of Mozambicans who will replace such workers in the future. To encourage this process, the charge for work permits for foreign technicians will increase successively.(30) Although these regulations appear to be more accommodating of workers' rights than those in Zimbabwe and Namibia, the extreme difficulties of the Mozambican economy, coupled with the government's commitment to attract and keep foreign investment, make it unlikely that these conditions will be enforced strictly. Also, the trade union movement in Mozambique is relatively young and weak and might find it difficult to monitor and ensure that the formal provisions are observed. Given the low levels of unionization, the extreme poverty and the high unemployment rates, as well as the direct influence of the World Bank and the IMF, Mozambique is in no position to impose strict investment conditions on foreign capital. The same applies to Malawi .

30. See reference 28.

The marginalization of labour is also reflected in the composition of the EPZ boards in the countries of Southern Africa. Trade unions are totally excluded and the heavy dominance of business interests signals the marginalization of labour in the process of establishing and running EPZs.

When the Malawian government passed an EPZ Act in 1995, it was hoping that EPZs would help to expand the country's export base beyond the traditional agricultural products, that they would diversify the economy and expand the industrial base. Although all national laws (including the labour Act) apply in EPZs, cheap labour is seen as a major incentive. At an investment conference in April 1997 in South Africa, a Malawian trade delegation offered prospective investors a minimum wage of US$ 20 (R 120) per month as a special incentive. The government's "flexibility" towards EPZs seems so great that it is open to offer almost any other additional incentive to attract investors – even if they stay for only a few years.(31)

31. Jauch, H (1997), "Regional mirage: Southern Africa and the EPZ, *Southern Africa Report* Vol 12, No 4, September, pages 12-13.

V. SOUTH AFRICA'S EPZs: THROUGH THE BACK DOOR

ALTHOUGH SOUTH AFRICA has not established any fully fledged EPZs, a number of policies were introduced by the apartheid government during the 1980s which resembled those associated with EPZs. These included:

- deregulation laws to allow the government to declare certain areas free from national laws governing conditions in the workplace;
- liberalization programmes introduced from 1988 to reduce import tariffs for inputs into textile, clothing and motor-vehicle industries; and
- industrial decentralization regulations which enabled the government to grant various concessions and subsidies to companies which were prepared to invest in designated areas, especially in the bantustan "homelands".(32)

32. Hirsch, A (1993), "An export processing zone strategy for South Africa?", *Trade Monitor* 1; also see reference 4.

These decentralized industrial areas in the apartheid homelands were sometimes regarded as disguised EPZs because they created working conditions similar to those in EPZs. The packages offered by the apartheid government, directly or through the homelands authorities, to encourage foreign as well as national investment in the homelands included:

- compromises on working conditions and the exclusion of the emerging new labour legislation in South Africa;
- prohibition of the trade unions which were growing rapidly in the rest of South Africa; and
- various financial incentives and investment support similar to that offered in EPZs.

Unlike "classic" EPZs, however, industrial decentralization strategies with respect to the homelands were located within an overall inward-looking national industrialization strategy. Thus, such decentralized industrial areas were not deliberately located close to transport facilities, such as harbours or airports, the way EPZs normally are. Basically, such investment programmes were designed to create jobs, and to do so in ways that prevented migration of the unemployed from the bantustans to the "white" urban areas.

In the early 1990s, the idea of establishing EPZs in South Africa gained new momentum. A lobby calling itself the South African Special Economic Zones Association was established and its members included both parastatal and private companies such as Eskom, Rainbow Chickens, Sanlam Properties, Mondi, Spoornet, Renfreight, Boland Bank, the Independent Development Trust (IDT) and Nissan.

By 1992, a number of studies on EPZs by different groups had been completed. The Export Processing Zone Council of the Department of Trade and Industry (DTI) put together a draft document entitled *Policy and Regulatory Framework for the Establishment of Export Processing Zones (EPZs) in South Africa*. By 1993, the apartheid cabinet had apparently approved in principle the creation of EPZs, with the possibility of establishing the first EPZ in 1994.[33] This was prevented by the country's first democratic elections in 1994.

33. See reference 4.

However, encouraged by the new government's neoliberal economic policies, which culminated in the Growth, Employment and Redistribution (GEAR) macroeconomic strategy, EPZ proposals in disguise soon resurfaced. The most common form they take are as "industrial development zones" (IDZs) which are promoted by South Africa's Department of Trade and Industry. IDZs are geographically defined areas in which manufacturing firms are offered incentives to establish themselves. In addition to national investment incentives, local governments can grant special incentives, e.g. subsidized water, electricity or land. Companies can also benefit from infrastructure provided by government, such as roads, harbours and railway lines.

VI. REGIONAL IMPLICATIONS

THE INTRODUCTION OF EPZ laws in Malawi, Mozambique, Zimbabwe and Namibia, and the proposals in South Africa are indicative of the countries' desperate attempts to attract foreign investment as a means of creating much-needed jobs. This desperation is reflected in the willingness of the Zimbabwean and Namibian governments to exempt EPZs even from their national labour legislation. The EPZ Business Plan of Namibia's Ministry of Trade and Industry illustrates the competition for investment between countries implementing EPZs. This plan notes that Namibia's EPZs should initially target light industries such as textiles and garments, electronics, footwear and leather goods, sporting goods, pharmaceuticals, household goods, car assemblies or car parts. It points out, further, that foreign direct investment from Japan, Hong Kong and the large transnational companies is now being joined by investment from Korea, Taiwan, Malaysia and Singapore.

"*As operational costs in these locations escalate, many of the companies are forced to relocate their lower value-added lines. Companies operating from Mauritius and even South Africa are also considering relocation. The ODC (Offshore Development Company) should, therefore, try and target these countries.*"[34]

34. Republic of Namibia (1995), *EPZ Business Plan*, Ministry of Trade and Industry, Windhoek.

In July 1997, the executive director of the Namibia Investment Centre visited Cape Town to encourage South African clothing and textile companies, as well as footwear and general leather manufacturers, to relocate their production to Namibia's EPZ in Walvis Bay, stating: "*But we're not trying to convince them to relocate their entire operations to Namibia, but rather that part which is very labour intensive.*" According to the director, such a move would be viable and would help companies increase their global competitiveness, as wage rates in Namibia are only half, and in some cases one-third, of those in South Africa. This line of argument illustrates the danger that EPZs may result in a "race to the bottom" as far as labour standards are concerned.

EPZs as a development strategy for Southern Africa are often promoted on the basis of the Mauritian model. Such comparisons ignore not only the very specific conditions of the small Indian Ocean 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 are not only bound to fail, but are likely to threaten attempts towards regional economic integration.

First, international experiences with EPZs since the 1960s have shown that they are unlikely to lead to sustainable economic development. On the contrary, they are deepening low- and middle-income countries' dependency on foreign capital and can have a detrimental effect on national industries. With a few exceptions, they have also not been a solution to unemployment, have not resulted in large foreign exchange earnings and have not led to noteworthy skills transfer to workers. An ILO study noted: *"The very concept of export processing zones, with duty-free imports being assembled for exports, implies that the impact on the host countries will be limited."*[35] Most EPZ countries do not have a strategy, targeted incentives or the necessary agencies to promote linkages between local firms and EPZ companies. Southern African countries seem destined to fall into the same trap, as their incentives packages are likely to attract companies that are interested in exploiting them for short-term gains without being prepared to invest in new technologies, skills upgrading or social benefits.

35. See reference 3.

Second, as Dot Keet pointed out, Southern Africa is facing a highly competitive – in fact, ruthless – global economy "*...in which there is really little prospect for any of the Southern African countries being able to offer terms and prospects that will really create successful EPZs – even on their own terms.*"[36] At a time when Southern Africa is still trying to establish EPZs, they are already being superseded by more sweeping neoliberal policies which create ever more favourable conditions for international capital. The ILO pointed out that 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 consider only low nominal wages but, rather, examine unit labour costs, taking productivity and skills availability into account. According to the ILO, significant amounts of investment are flowing into higher-wage EPZs (such as Singapore and Malaysia) due to their favourable productivity and unit labour costs.[37] By contrast, Southern Africa tries to attract EPZ investments on the basis of cheap labour, which will attract only the lowest-quality investors who are least likely to succeed in global competition.

36. See reference 4.

37. See reference 3.

Third, in their desperate attempts to attract foreign investment on almost any terms, the governments of Southern Africa are entering into competition with each other. They compete for the same investors by offering ever greater concessions to foreign capital. This competition for investment produces a downward spiral in EPZ conditions, wherein the benefits accrue to the investors and the costs to the host countries. As SADC member states scramble for foreign investment, EPZs are likely to erode existing social, labour and environmental standards. Even where governments are intent on defending the social gains made, they find themselves in a weak position to do so.[38] 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.

38. See reference 4.

VII. CHALLENGING EPZs

THERE HAS BEEN a mixed response from local businesses to the EPZ proposals in Southern Africa. Some support the EPZs in the hope that they will be able to benefit from the special incentives offered. Some might also see EPZs as an opportunity to undermine trade unions. Others – especially smaller businesses which produce for local markets – fear that EPZs will provide additional advantages to foreign transnational corporations (TNCs). These TNCs might then wipe out local companies by selling cheaper products either legally or illegally (through "leakages") on the local market.

So far, the only serious challenge to EPZs in Southern Africa has been from the labour movement. Trade unions in Zimbabwe and Namibia responded promptly to the EPZ legislation and demanded amendments to accommodate the provisions of their labour Acts. The Zimbabwe Congress of Trade Unions, in particular, put forward powerful arguments by pointing out that cheap labour production is no longer a viable option at a time when new technologies require more skilled workers. The ZCTU further argued that poor working conditions result in lower productivity and a low product quality – which could not be in the interests of prospective investors.(39)

39. See reference 4.

The Namibian trade unions' initial criticisms of EPZs also targeted the exclusion of the labour Act but did not raise the broader problems associated with EPZs as a development strategy. Likewise, in 1993, the National Union of Metalworkers in South Africa (NUMSA) passed a resolution on EPZs which did not completely reject the concept of EPZs. Instead, it argued that any investment, be it in the broader economy or within an EPZ, must comply with South African labour legislation standards. These positions constitute a defensive response and are unlikely to address the more fundamental problems associated with EPZs. NUMSA realized this, and now rejects EPZs as a development strategy for South Africa.

South Africa's major union federation, COSATU, opposes EPZs on the basis that they are not a viable industrial development strategy for South Africa. The COSATU-affiliated Southern African Clothing and Textile Workers Union (SACTWU) objects to EPZs on both economic and social grounds. It points out that the "footloose" investors which EPZs attract neither develop the national economy nor create sustainable development. On the contrary, EPZs "*undermine the local economy*" as a result of the dumping of cheap products through "leakages". SACTWU also questions the viability of companies which rely on subsidies and points out that EPZs result in poor living and working conditions for workers.(40)

40. See reference 4.

a. A regional approach

In 1995, the Southern Africa Trade Union Coordinating Council (SATUCC), which brings together the leaders of the main national trade union federations, commissioned the International Labour Resource and Information Group (ILRIG) and the Centre for Southern African Studies (CSAS) from Cape Town to investigate the economic, social and political implications of EPZs in Southern Africa. This was complemented by research on health and environmental issues in EPZs conducted by the Harare-based Training and Research Support Committee (TARSC). On the basis of these findings, trade union leaders from the region debated EPZs at a workshop in March 1996 and passed a resolution stating their opposition to EPZs as a development strategy for Southern Africa. They not only rejected concessions on labour, environmental and health standards in EPZs but also identified EPZ policies as a threat to industrial democracy, sustainable development and regional integration.

Although the resolution is a good starting point for a broad campaign against EPZs in Southern Africa, trade unions will have to do more to challenge their governments' (neoliberal) economic policies. They will have to move beyond mere criticism towards alternative development strategies. The ZCTU's policy proposals "Beyond ESAP" (Economic Structural Adjustment Programme) represent a step in this direction and similar initiatives appear essential in all countries of Southern Africa. At present, trade unions seem to be the only social organizations capable of seriously challenging government policies through organized action. However, SATUCC's role so far has essentially been one of bringing national union leaders together and lobbying governments at SADC level. More direct action across borders and a far greater involvement of union members in regional policy issues are essential if SATUCC wants to move beyond its role as a mere "talk shop".

Given the fairly small industrial base in most countries of Southern Africa, trade unions will have to consider strategic alliances with social organizations such as communal farmers' unions and women's organizations in order to build a mass movement with the legitimacy and capability of challenging EPZs and other neoliberal development strategies in Southern Africa. EPZs certainly hold little prospect of solving the region's socioeconomic problems and they are threatening not only labour standards but also attempts to achieve greater regional cooperation, self-sufficiency and sustainable development.