SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

# Ramatex Namibia:

# Government Policies and the Investment Environment

**Submitted by:**
**Frank Flatters**
**Paulina M. Elago**

**Submitted by:**
**The Services Group**

**Submitted to:**
**U.S. Agency for International Development/South Africa**

**Gaborone, Botswana**

**March, 2008**

**USAID Contract No. 690-M-00-04-00309-00 (GS 10F-0277P)**

P.O. Box 602090 ▲Unit 4, Lot 40 ▲ Gaborone Commerce Park ▲ Gaborone, Botswana ▲ Phone (267) 390 0884 ▲ Fax (267) 390 1027

E-mail: info@satradehub.org

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

**Acknowledgments**

This report was prepared by Frank Flatters and Paulina Elago for the AECOM International Development Trade Facilitation and Capacity Building project at the Southern Africa Global Competitiveness Hub, Gaborone, Botswana. The project is funded by the United States Agency for International Development (USAID).

The authors are grateful to former Permanent Secretary and staff of the Ministry of Trade and Industry and the staff of the Namibia Investment Centre and the Offshore Development Company who provided helpful and informative briefings and gave invaluable assistance in arranging meetings with a wide range of key stakeholders under the constraint of a very tight time schedule. The report has benefited enormously from the cooperation and openness of these stakeholders including national and local government officials from a variety of different departments, union representatives and researchers, key officials and representatives of state enterprises, private sector representatives in the customs clearing and freight forwarding industries, and a representative of the Employers Federation of Namibia and the Namibia Chamber of Commerce and Industry. The US Embassy and USAID mission in Windhoek provided valuable inputs and background information.

The report would not have been possible without the cooperation of and open discussions with Mr. Ong Boon Keong, General Manager of Ramatex Namibia and his staff.

Robert Kirk of AECOM International Development provided helpful comments and suggestions on earlier drafts of the report. The analysis, conclusions and recommendations are the authors' and do not reflect the views of USAID. Comments or questions are most welcome and can be sent to the authors at ff@frankflatters.com and pelago@satradehub.org

## Executive Summary

The Ramatex investment in Namibia in 2001/02 was huge and it was important. It offered the prospect of well over 10,000 jobs and the development of a new manufacturing export base in textiles and garments, with potential knock-on effects for many other sectors through supplier linkages, labour force training and the development of transport networks.

Ramatex' principal reason to invest in southern Africa was to take advantage of the Africa Growth and Opportunities Act (AGOA), which offers duty and quota free access to the U.S. market. The reason it chose Namibia was a very generous package of incentives contained in a pre-existing EPZ program that was enhanced with concessionary transport and utility provisions and the government's assumption of major costs in respect of water supply and wastewater management. The government went to great lengths to be "business friendly."

Conflicts among key stakeholders troubled the project almost from the beginning. Issues have included environmental impacts, labour relations, transport services and fulfilment of government commitments on incentives, especially in connection with training of new workers. Several of the company's major buyers withdrew from Namibia in the early years of the project. Productivity has been lower than expected and unit labour costs higher. Difficulties in meeting production deadlines and in achieving planned shipping volumes have combined with other logistical problems to raise shipping costs and further reduce competitiveness.

Ramatex has never come close to meeting its production, sales or employment targets. It has lost money in every year since it opened. It scaled back production and employment in January 2005 by closing one of its three garment factories. Rhino Garments, a related company operating under separate management on an adjacent site shut down a few months later. The Ramatex spinning and weaving operations, which had been operating at considerably less than existing or planned capacity, were closed in August 2007.

This report examines the Ramatex Namibia experience for lessons about government policies and the investment climate. It confirms that trade preferences and investment incentives are important in shaping investment decisions. However, the ultimate success of these investments depends on a far wider range of factors, involving government at different levels, strategic decisions of the firms themselves, and the behaviour and interactions of a wide range of stakeholders.

Among the most important conclusions are the following.

- Trade preferences can have a huge impact in promoting investment. AGOA was the most important factor in inducing Ramatex to bring this project to Africa. Details of the preferential arrangements, especially rules of origin, are also important. The factory was designed as a vertically integrated operation and thus appeared to be insensitive to AGOA's initial and highly restrictive yarn forward rule of origin. Nevertheless, the waiver of this rule for Less Developed Beneficiary Countries (LDBCs) provided much needed flexibility for the company in input sourcing and cost control, and has been critical in allowing it to adjust to changed expectations, to attempt to restructure and to maintain a presence in the country.

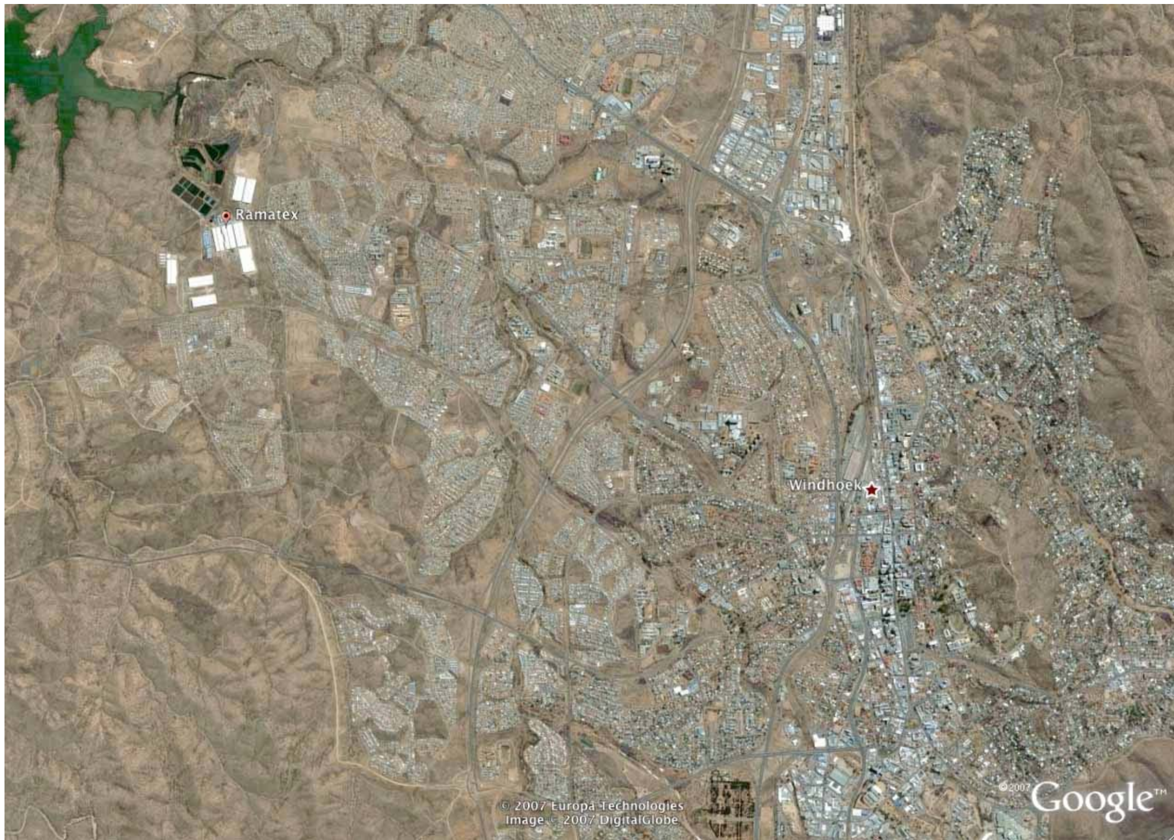
- The fiscal and other incentives provided by the government of Namibia have been extremely generous. Whether they were all necessary could certainly be disputed; whether they could all be justified in terms of the overall economic impacts of the subsequent outcomes might be even more in doubt. This is especially true of concessions and assistance on water supply and wastewater management. Facing a need to act quickly, the deal with Ramatex was signed without any substantive investigation of the environmental costs of the project. The government put itself in a position of acting primarily on hope and faith rather than any sound economic analysis of its options at the time.

- Implementation of incentives is important. Failure to address cost and investment issues at TransNamib, for instance, dissipated the value of domestic transport concessions and led to increased logistical costs and problems with buyers. Conflicts with the Ministry of Labour over hiring procedures and over the conditions for subsidized training allowance had a similar impact on the value of labour and training incentives.
- Creating an efficient and investment-friendly business environment requires contributions from many parts of the government. A certain amount of friction among departments, agencies and levels of government is inevitable and actually quite healthy. But to avoid conveying unnecessarily confusing and mixed messages to investors there need to be processes to resolve intra-governmental conflicts, to develop a shared vision of development goals and to reach agreement on how to achieve them.
- Efficient logistics and low transport costs are critical to the success of companies and countries wishing to compete in global markets. Namibia's relatively remote location and small manufacturing sector result in infrequent and inconvenient shipping schedules to major markets. Together with Ramatex' failure to achieve desired production levels, this made it necessary to rely on second and third best shipping options with much higher costs. These costs have been increased by uncertain and occasionally arbitrary intra-SACU customs procedures.
- Public perceptions can also be important. The size and importance of the investment together with some particular domestic political circumstances at the time made Ramatex the "elephant in the living room" in a wide variety of discussions of social and economic development policies. Ramatex probably relied too heavily on the government to handle its media and community relations and tended to come across too belligerently when acting on its own. The MTI strove to achieve a balance between genuinely responding to Ramatex' needs in making the project a success and not appearing to be beholden to and a captive of the company. The local union, NAFAU, played a very dangerous game in working with the international union, ITGLWF, in threatening to have Ramatex blacklisted by US buyers. A more subtle understanding of their shared interest with the buyers in promoting good labour practices might have achieved many of the same goals at much lower cost.

Ramatex' commercial difficulties arose for a combination of reasons, many of which are not necessary or inevitable. The Ramatex investment was novel and unique for Namibia and to a large extent for Ramatex, as it involved production in an environment very different from those with which it was familiar. It has been a learning experience for all stakeholders, and there is little doubt that, in hindsight, many things could have been done differently and better.

For the government maybe the most important lesson is that attracting investment involves far more than doling out incentives. It is a much larger job of creating a business environment in which unnecessary regulatory costs and processes are minimized, and important social, economic and environmental concerns are managed efficiently and effectively.

Ramatex and Windhoek




Ramatex Factory

# 1 Introduction

The huge spinning, knitting, dying and garment complex built in a suburb of Windhoek by Malaysia's Ramatex Group is without doubt one of the most significant manufacturing investments ever to have been made in Namibia. When initiated in 2001, it offered the prospect of over 10,000 jobs, the development of a new manufacturing export base in garments, and the possibility of a jump-start for a newly developed port facility and associated transport corridor running from the port of Walvis Bay to South Africa's industrial heartland. It was viewed as a triumph of investment promotion policies that succeeded in wresting the project from South Africa, where the project had seemed almost certain to go.

Ramatex' principal reason to invest in southern Africa was to take advantage of the US Government's Africa Growth and Opportunities Act (AGOA), which offers duty and quota free access to the US market.

But Ramatex could have chosen to locate in any AGOA-eligible country. Why choose Namibia? Namibia had virtually no history of labour-intensive manufacturing, in textiles and garments or in other industries. Her small population and labour force, relative geographic isolation, and significant water scarcity made Namibia a less than obvious first choice. Ramatex' decision to invest there in spite of these drawbacks suggests that there were other attractive and sufficiently offsetting features of the overall investment environment. A generous package of incentives offered by the government certainly was important.

Ramatex' Namibian operation encountered a number of difficulties, almost from the very start of production in 2002. These included conflicts over environmental issues, labour, transport and fulfilment of government commitments on incentives, especially in connection with training of new workers. It has had to deal with strikes and the withdrawal of several of its major buyers. Productivity has been lower than expected and unit labour costs higher. Difficulties in meeting production deadlines and in achieving planned shipping volumes have combined with other logistical problems to raise shipping costs and further reduce competitiveness.

Ramatex scaled back its garment operation in January 2005 by closing one of its three factories and consolidating its garment-making in only two factory buildings. Rhino Garments, a related company operating under separate management on an adjacent site shut down a few months later. The Ramatex spinning and weaving operations, which had been operating at considerably less than existing or planned capacity, were closed in August 2007.

Ramatex and the government of Namibia have been faced with some difficult choices—for Ramatex whether to shut down, sell or find other partners for the Namibian operation, and for the government what to do about it. Ramatex initially offered to sell the entire operation to the government of Namibia. The government wisely declined this offer, but the parties then engaged in protracted negotiations to design a "turnaround package" that would be beneficial to both the company and the country.

The purpose of this study is to examine the Ramatex Namibia experience not so much to find immediate solutions, as to draw some more general lessons about the investment climate in developing countries, especially in Africa. It confirms that trade preferences and investment incentives are important in shaping investment decisions. However, the ultimate success of these investments depends on a far wider range of factors, involving government at different levels, strategic decisions of the firms themselves, and the behaviour and interactions of a wide range of stakeholders.

Winners of auctions for items such as oil drilling or mining rights of uncertain value often tend to offer more than the prize is actually worth. This phenomenon is known as the "winner's curse." The government of Namibia was involved in such an auction when it bid for the Ramatex investment, primarily against South Africa, but also against several other

potential locations. Namibia was a latecomer to the process and was under pressure to move quickly, without the luxury of a more careful examination of the costs and benefits of the alternatives. This might have been aggravated by the government's desire to "make good" on its industrial policy promises and especially to show the wisdom of its EPZ policy. Was Namibia's victory an example of the winner's curse?

There are some that argue that Ramatex never planned to make Namibia a permanent home; that it came to Namibia to take advantage of short term incentives provided by AGOA and by the Government of Namibia; that it passed to the government the burden of some of the most substantial long term fixed investments, most notably in wastewater management infrastructure, and confined its own investments primarily to machinery and equipment that could be uprooted and moved elsewhere at relatively low cost.

Such claims are certainly not consistent with what Ramatex was telling its own shareholders when contemplating and finalizing the investment.

However, Ramatex almost certainly underestimated the costs and difficulties of operating in Namibia. Was it blinded by the value of the incentives granted by the government? Whatever the reasons, this presents lessons for other investors and poses concerns for future industrial development strategy. It is dangerous for governments to rely on an industrial strategy that depends primarily on high levels of subsidies to investors in order to overcome the natural and other disadvantages of operating there.

A more nuanced view is that Ramatex' commercial difficulties arose for a combination of reasons, many of which are not necessary or inevitable. The Ramatex investment was novel and unique for Namibia (and to a large extent for Ramatex, as it involved production in an environment very different from those with which it was familiar). It has been a learning experience for all stakeholders, and there is little doubt that, in hindsight, many things could have been done differently and better.

For the government maybe the most important lesson is that attracting investment involves far more than doling out incentives. It is a much larger job of creating a business environment in which unnecessary regulatory costs and processes are minimized, and important social, economic and environmental concerns are managed efficiently and effectively.

The paper begins with a brief history of the Ramatex investment decision and its relation to the company's global strategy, followed by the essential details of its disappointing performance to date (Sections 2-4).

This is followed (Section 5) by a discussion of the role of the two most important incentives affecting the original decision—AGOA and the package of fiscal and other incentives provided by the government of Namibia. AGOA undoubtedly played a critical role in inducing the company to make this large investment in Africa. Furthermore, even though the Ramatex factory began as a highly vertically integrated operation and thus was less sensitive to the restrictive yarn-forward rule of origin, the waiver of this rule for Less Developed Beneficiary Countries (LDBCs) provided much needed flexibility for the company in input sourcing and cost control, and has been critical in allowing it to adjust to changed expectations, to attempt to restructure and to maintain a presence in the country.

The fiscal and other incentives provided by the government of Namibia have been extremely generous. Whether they were all necessary could certainly be disputed; whether they could all be justified in terms of the overall economic impacts of the subsequent outcomes might be even more in doubt. This is especially true of concessions and assistance on water supply and wastewater management.

The investment environment, of course, depends on far more than trade preferences and fiscal incentives. In this case, it has been affected by a broad range of other critical issues that we group under three headings—labour (including recruitment and training, wages,

working conditions, labour relations and productivity); logistics; and environment. Their impact on the investment climate, on the economic success of the investment for Namibia, its financial success for the company and its impact on other key stakeholders has been complex. Examination of some of these issues (Section 6) reveals conflicts of economic objectives, differences in the understanding of the costs and benefits of policy alternatives and decisions, and real and imagined disagreements about the interests of various stakeholders. These inevitably clouded the investment environment and resulted in actions and decisions that had unintended and often undesirable consequences for the country, the company and/or particular groups.

While such conflicts are normal in the course of economic policy-making, the sheer size and importance of this investment made it an obvious magnet of attention for many purposes, at least some of which might have had little to do with its immediate economic consequences. Section 7 examines some of the broader issues arising from the "elephant in the living room" effect of Ramatex. It does so by examining peculiar features of and questions about the relationships among some of the key stakeholders in dealing with a new kind of activity in a relatively new and untested international investment environment, and at a key stage in Namibia's own political evolution.

Section 8 draws some general lessons for governments, investors and other stakeholders. It brings together some of the key conclusions of the report—about AGOA, about the necessity and costs of fiscal incentives, about managing intra- and inter-governmental policy coordination, about the role of logistics and trade facilitation in determining competitiveness, and about broader communications and coordination issues in promoting investment and creating a sound business environment—and pose some broader questions about the success or failure of this and similar investments and about the dangers of playing the investment incentives game and invoking the "winner's curse" by giving away (and/or accepting) too much or at least some of the wrong things to attract investment.

## 2 The Ramatex Investment Decision

The Ramatex Group already had two garment factories in the Eastern Cape of South Africa, and so that was the most obvious location for any major new investment. Immediately following the passage of the AGOA legislation in 2000 Ramatex entered into discussions with the government of South Africa about plans for an integrated spinning, knitting and garment complex in the Eastern Cape. By 2001 these plans had reached a very advanced stage, including land acquisition.

The final negotiations with South Africa were slow and difficult. Seeing an opportunity to take advantage of the delays in South Africa, the government of Namibia made contact with Ramatex, arranged exploratory visits and discussions in Namibia, and in very short order a deal had been negotiated for the company to set up in Windhoek instead.[1]

The loss of an investment that was expected to create more than 10,000 jobs in one of South Africa's poorest regions came as a great surprise and disappointment to South Africa. On the other hand, it was seen as a triumph and a source of considerable hope for the development of a manufacturing export base in Namibia, and was seen as vindication for a variety of recently implemented industrial incentives and infrastructure investments in Walvis Bay and its associated transport corridor.

Ramatex Namibia (RTN) and an associated garment company, Lichen Apparel Namibia (LAN) were established in 2001 and by October they had been granted a 99 year lease on a factory property on the outskirts of Windhoek and began construction in that month. Commercial production began late in 2002.

---

[1] On 25 January 2005 Ramatex formally deregistered its wholly owned South African subsidiary, Ramatex Textiles (Pty) Ltd. that had been set up as the vehicle for the planned South African investment (Ramatex Annual Report 2005 p.67).

## 3 Namibia as Part of the Ramatex Global Strategy

Ramatex Textiles Namibia (RTN) is a wholly owned subsidiary of the Ramatex Group, a Malaysian textile and garment company with major manufacturing operations in a number of countries of which the most important are Cambodia, China, Malaysia and Namibia. The Namibia investment was a key part of Ramatex' global strategy of cost reduction, geographic diversification of production and taking advantage of various trade preference regimes. The three main elements of this strategy were:

- To modernize and reduce costs of the Malaysian fabric manufacturing operation,
- To expand the China operations in Suzhou by adding apparel manufacture to the existing spinning and weaving operations. This was aimed at both the large and growing domestic market in China and the global markets that were expected to emerge as a result of China's WTO accession, further WTO liberalization and the end in 2005 of the quota and other non-tariff restrictions on clothing and textiles under the MFA.
- To use the Namibia investment to take advantage of tariff and quota free access for African-made garments to the US market under AGOA. This was seen as complementary to, and not a substitute for market access from China after the end of the MFA.[2]

The end of the MFA and the accession of China to the WTO were fully anticipated at the time of the investment in Namibia. It is difficult to argue, therefore, that subsequent difficulties in Namibia and the possibility that Ramatex might shut down its operation there were a result of these events.

The RTN factory was designed as a fully integrated spinning, knitting, dying and garment-making facility. Using cotton from west Africa ensured that the products would satisfy even the most restrictive of rules of origin, and even without African cotton the factory outputs would have no difficulty meeting AGOA's yarn forward requirement that faced Namibia at the time the investment was planned. The integrated nature of the operation was consistent as well with the Ramatex plan in China.

The Namibian investments were divided into several different corporate units, one of which, Ramatex Textiles Namibia, was responsible for the spinning, dying and knitting operations, and the others for apparel.

Lichen Apparel Namibia (Pty) Ltd, a wholly owned subsidiary of RTN, appears to be the unit that was initially set up for the garment-making part of the investment (Ramatex Annual Report 2001, "28. Significant Events"), but it is now reported as dormant (Annual Report 2005, p.54). Soon after, two other subsidiaries, Tai Wah Garments and Rhino Garments, both subsidiaries of the Malaysian Ramatex Group, were granted business licences to produce garments in Namibia. The Tai Wah apparel operation is now being conducted under the name of Flamingo Garments (Pty) Ltd, a wholly owned subsidiary of RTN (Annual Report p.54).

Construction of the factories began in August 2001 and commercial production started in the second half of 2002.

The plan was for the first stage of production to employ 6,000 to 8,000 workers, with most of the jobs accounted for by labour intensive apparel production. This was expected to grow to 10,000 to 15.000 workers in relatively short order. Planned shipping volumes were correspondingly high. An MOU between RTN and Transnamib, the state railway company, for transport of goods between the port of Walvis Bay and the Ramatex factory specified a

---

[2] According to the Chairman's statement in the Ramatex Annual Report 2001 "The future success of the Group growth will be partly determined by the outcome of the investment in Namibia."

need to move 450 forty-foot containers per month (peak) between the factory promises and the port.

Whether measured by employment or shipping volumes, the initial plans envisioned substantial levels of activity.

## 4 Actual Performance

In the first five years of operation, exports, employment and shipping volumes have not come close to the planned levels (see Table 1). The peak year was 2004, when the company shipped a total of 951 forty-foot containers (FEUs) over the entire year, or an average of 79 per month. The maximum number shipped in any month was 168, barely more than one-third of the 450 per month anticipated in the initial plans. Over all of 2004, the company's peak year so far, production and exports were less than 20 percent of initially planned levels and total employment was no more than half of the least optimistic initial projections.

Since 2004, production, output and employment have declined. This is due primarily to the closure of one of three Ramatex garment factories in January 2005 and of the Rhino Garments factory in April 2005. According to the group's Annual Report for 2005 the textiles division was then operating at 45 percent of capacity in yarn production and 57 percent of knitting capacity. Shipments fell by another third in 2006, and employment dropped by more than a quarter.

Ramatex Exports and Employment

| | Exports | | | Workers | | |
|---|---|---|---|---|---|---|
| | USD | Containers | Cont./month | Foreign | Local | Total |
| 2002 | 9,441,271 | 132 | 11 | | | 2,046 |
| 2003 | 50,026,837 | 653 | 54 | | | 5,180 |
| 2004 | 79,189,958 | 951 | 79 | 1,317 | 4,141 | 5,458 |
| 2005 | 51,309,879 | 631 | 53 | 926 | 3,479 | 4,405 |
| 2006 | 35,939,526 | 414 | 34 | 434 | 2,760 | 3,194 |

*Source:* Ramatex

*Note:* The employment data do not include the Rhino Garments factory that closed in March 2005. According to newspaper reports it employed about 1600 workers.

The consequences for company profits are not surprising. A loss of MR 18.4 million in 2004 grew to MR 37.6 million in 2005. A note to the 2005 financial statements (p.55) observes, "the auditors' reports … for RTN [and] Flamingo Garments … emphasized that the continuance of these subsidiaries as going concern[s] is dependent on the availability of future funding and their availability [sic.] to achieve future profitable operations."

In 2005 the company pledged to its shareholders that it would review the options available for the Namibia operation and to "take all possible steps to ensure that the financial impact on the Group will be minimal, irrespective of the option to be undertaken by the Board in the future" (Annual Report 2005, p.7). By 2006 the cumulative losses arising from the Namibian investment had reached USD 30 million.

Ramatex has been in discussions with the government since 2006 regarding the development of a "turnaround strategy." Among the initial suggestions was that the government buy out RTN (possibly in conjunction with a private partner) at a reported cost of about N$500 million. The government rejected this suggestion, observing quite correctly that it is not and should not be in the textile business. However, there have been discussions of alternative means of government support, and no conclusions have been reached. In September 2007 Ramatex closed its spinning, knitting and dying operations in Namibia. It is

apparent that both Ramatex and the government have been and probably continue to be involved in discussions with other potential investors.

Some of the issues in the "turnaround strategy" will be discussed further below. But before doing that we review some of the main issues that have arisen since the start of the Ramatex project and, where relevant, discuss implications for the future of the project.

## 5 Incentives: AGOA Preferences and Government of Namibia Facilities

### 5.1 AGOA

Although the Ramatex presence in southern Africa predates AGOA, the major expansion that took place in 2001 would have been almost inconceivable without it.

Ramatex made a number of major investment decisions at the turn of the millennium. Each of them was informed by some combination of relative costs, market size and market access conditions or opportunities arising from MFA quotas and/or special preference arrangements.

The expansion in China was due to cost and market considerations, including direct access to the large and growing Chinese market. Its investments in Cambodia were guided by a combination of low labour costs and freedom from MFA quota restrictions that applied to most southeast Asian production locations. And the expansion into southern Africa was driven by the desire to escape quota restrictions affecting Asian production and to take advantage of the AGOA preference that gave Africa-based production a tariff preference of almost 20 percent in the large US market. This preference margin could make it possible to incur significantly higher costs of production in Africa compared with Asia without necessarily losing the interest of major US buyers.

The value of the AGOA preference margin, of course, depended on its remaining in place for a reasonable period of time, sufficient either for Ramatex to achieve costs in Africa that matched those achievable in Asia or elsewhere, or at least long enough to recover investment costs over a reasonable plant life.

AGOA was originally designed to last for eight years, from 1 October 2000 to 30 September 2008, although many in the industry expected or at least hoped that this deadline would eventually be extended. This hope was realized in July 2004 with passage of the "AGOA Acceleration Act" (AGOA III), which moved the end date of AGOA preferences from September 2008 to September 2015.

2004 was also Ramatex Namibia's peak year in terms of export volumes and employment levels. However, these levels were far below initial expectations and there must already have been some serious doubts about project's commercial success. By the end of that year sales were beginning to fall, confirming such misgivings.

It is interesting to ask, but difficult to determine whether greater certainty about the long-term availability of AGOA preferences in 2003 and early 2004 would have made any difference. As will be seen below, however, a number of other factors that were quite independent of AGOA certainly played a role in deflating expectations about the success of Ramatex' Namibia strategy.

A restrictive "yarn forward" rule of origin was another critical feature of AGOA preferences in the garments sector. This rule required that garments must be made from cloth manufactured in the US or in a beneficiary country, from yarn that is also made in the US or a beneficiary country. Certain designated lesser-developed beneficiary countries (LDBCs) were exempted from the yarn forward rule and so were permitted to source cloth from third countries. For most beneficiary garment producers, and especially those in small countries like Lesotho, this was a critical reason for their success in taking advantage of AGOA. Neither South Africa nor Namibia was initially included in this set of LDBCs. An amendment

in 2002 (AGOA II) extended the list of LDBCs to include Namibia (and all other AGOA beneficiary countries except South Africa and Mauritius).

The third country fabric provision for LDBCs was scheduled to expire after only four years, after which the yarn forward rule would apply. AGOA III (July 2004) extended the termination date of the LDBC provision from September 2004 to September 2007, and the most recent AGOA amendment in December 2006 extended it further to 2012 (although with some potentially significant qualifications related to a new requirement to use "commercially available" local fabric—see Flatters 2007).

The yarn forward rule of origin was clearly not a major issue in Ramatex's initial investment decision. Its plans from the very beginning included a fully integrated operation, spinning yarn from cotton sourced largely if not entirely in Africa, knitting and dying it, and cutting and making garments, all in its local factory complex. This would satisfy not only the yarn forward rule, but even a more restrictive "wholly manufactured" rule. This vertically integrated configuration was not simply a response to the AGOA rules of origin; it was part of an overall company strategy and had been or was being pursued in several of its other global locations.

It could be argued even that Ramatex might even have gained some advantage from the yarn forward rule by providing a captive market for any surplus yarn or fabric that it did not need for its own garment production. However, according to Ramatex sources, the company never had any plans to supply yarn or fabric to producers other than its own subsidiaries and related companies.

While the yarn forward rule was not a concern or a hindrance at the time of the initial investment decision, the relaxation of the rule resulting from Namibia's designation as an LDBC for this purpose turned out to be of considerable value to Ramatex by increasing its flexibility and options for dealing with the disappointing commercial results that followed.

Although the factory complex provided a completely vertically integrated operation, the final garment outputs were still constrained to utilize the types and quantities of knit fabrics produced there. Several years into its operations in Namibia, the company took advantage of the relaxation of the yarn forward rule, and prior to the closing of its spinning and knitting operation it was sourcing about 20 percent of its yarn and fabric internationally. This allowed it to manufacture products utilizing certain specialty materials that it either could not produce at its factory, or could do only at a prohibitively high cost. Thus, even for a vertically integrated operation, the more flexible rule of origin conferred a real advantage, and re-imposition of the more restrictive yarn forward rule certainly would have reduced its competitiveness in some product lines.

Greater certainty about availability of third country yarn and fabric has been absolutely critical more recently in dealing with the continued commercial difficulties of the Namibia operation. Without access to third country yarn and fabric the decision last year to close the spinning and knitting factory would have necessitated closing the garment factories as well, with far greater consequences for employment in Namibia. Access to third country fabric greatly expands the range of possibilities for restructuring, including teaming up with, or even selling to other garment producers in the region.

It is not clear whether uncertainties about extension of the third country fabric provision affected the decisions and discussions of a turnaround strategy between 2004 and late 2006 when the provision was finally extended to 2012.[3] However, extension of the provision has certainly expanded the range of options available.

[3] Discussions with senior expatriate technical personnel in the first half of 2007, however, indicated some real concerns about the possible expiry of the provision in 2007 and even some confusion about the exact provisions and schedules in the AGOA legislation, with some of them appearing to believe that it was AGOA itself rather than the LDBC provision that was scheduled to expire in late 2007.

## 5.2 The Government of Namibia Incentives Package

As part of policy to attract outward oriented foreign investment into Namibia the government passed an Export Processing Zone (EPZ) Law in 1995 (and amended in 1996). Despite the generosity of some of this law's provisions, the country had not been successful in attracting major investments, and this was increasingly viewed as a failure of this particular law and of government investment and business promotion policies in general. The few investment promotion "successes" tended instead to be small and to be based on infant industry protection of production for the small local market, provided through high import tariffs and/or quantitative import restrictions.

The package agreed with Ramatex included the full set of benefits available under the EPZ Law as well as a number of significant additional enhancements.

Under the EPZ Law Ramatex was granted the following "basic" incentives

- duty-free access to imported inputs and capital goods,
- exemption from VAT,
- exemption from income tax on all income earned by the EPZ activity,
- government underwriting of 75 percent of approved expenditures for training Namibian nationals, and
- free installation of utilities and water service connections.

The first two of these are not far different from the normal incentives granted to export activities anywhere and are essential to help offset the anti-export bias that otherwise would be imposed by import duties and domestic sales taxes. Some kind of a tax holiday is another frequently observed feature of investment promotion regimes, although their value and effectiveness is more controversial. An unlimited exemption from all future income taxes, however, is quite unusual. There are many possible justifications for assistance with training and training expenditures, although the justification for confining them to EPZ activities is less clear. The effectiveness of training incentives often depends on the details of the program and the activity being supported. Underwriting of utilities and water service connections, especially for investments in urban areas with well-developed utility networks is not generally a major concern for large investors; much more important is service reliability and pricing that is not too far out of line with economic opportunity costs of their provision.

In addition to these standard Namibian EPZ incentives, Ramatex was also granted a number of other concessions, including the following.

- The company was granted a 99-year lease to two adjacent parcels of land (45.65 hectares in all) at a nominal annual rent of N$1,000 per year. The Ramatex Annual report for 2001 listed this land at a net book value of RM 377 thousand (the buildings were still under construction at that time) while the 2005 Report showed their net book value as over RM 60 million.[4]
- All site preparation (clearing and levelling of land), including the digging of 10 water treatment ponds for the dying operation, was done at no cost to the investor. This was a major concession to the company and is estimated to have cost the government about N$100 million.
- An MOU was entered with TransNamib for rail shipment of containers between Walvis Bay terminal and the factory grounds in Windhoek, at a concessional price that, at least at current volumes, does not quite cover marginal operating costs.

[4] RM stands for Malaysian Ringgit. The current value of one MR is about 0.31 US dollars.

- Access to municipal water treatment facilities (paid for by MTI at a cost of N$ 18 million) and subsidized water prices (i.e. sale at less than prevailing commercial rates) for the first two years of factory operation.[5]
- Subsidized utilities prices.
- Waiver of wharfage and other fees at the port of Walvis Bay.
- Ramatex' local Managing Director was given an office next to the Namibia Investment Centre (NIC) in the Ministry of Trade and Industry until the factory was constructed and operational.

One incentive that was denied to Ramatex was access to the SACU Duty Credit Certificates (DCC) program that rewards garment exporters with tradable duty credits that can be used against import duties otherwise payable on garment imports into the SACU market. According to the regulations governing this incentive program, companies benefiting from the DCC program are not allowed to make use of the standard duty drawback program for exporters; they must choose which of these two programs to utilize. There is a certain amount of ambiguity in this rule for EPZ firms, since they do not need to use duty drawbacks for exemption from duties on imported inputs. However, Namibia interpreted the DCC rule in the way in which it almost certainly was intended—i.e. to deny Ramatex access both to the duty exemption under the EPZ rules and the DCC program.[6]

## 6 Other Key Issues

At its inception the Ramatex investment seemed a sure bet, at least from a commercial point of view. The parent company was well established and had global experience in the industry. It had well developed networks of suppliers of materials and logistical and other services. It had good relationships with a number of the major buyers in the US and other markets. Through its Eastern Cape garment factories it had at least some hands-on experience working in southern Africa. And the combination of AGOA preferences and incentives provided by the Government of Namibia provided considerable additional commercial and financial support.

While Windhoek Namibia did not appear to be the most obvious location for an investment like this, the company's credentials and the package of incentives provided made the risk of commercial failure seem low. A more pertinent query to an outside observer (and indeed to those on the inside as well) might have been, not whether the investment made commercial sense for the investor, but rather whether it and the package of incentives provide by the government made economic sense for the country. If the investment turns out to be a commercial failure as well, this raises even more serious questions about the project's economic rationale for the country.

This purpose of this section is to provide a narrative and a discussion of some of the events and circumstances related to the difficulties faced by the Ramatex investment in Namibia, concentrating on those that might have had a bearing on the success of the project to date. The discussion is divided into sections corresponding to three broad issues—labour, transport and logistics, and environment.

---

[5] Ramatex built its own in-house water treatment plant based on standards used in its factories elsewhere in the world. However, these other locations did not suffer from the water scarcity problems facing Namibia.

[6] There are several puzzles here. First, if Ramatex had a choice between using import duty exemptions on imported inputs and gaining access to the DCCs, why did it not choose DCCs? The value of import duty savings on imported cotton, dying chemicals and a few other imported inputs almost certainly would have been less than the value of DCCs on exports. Second, why did Namibia insist on such a strict interpretation of the DCC program rules? Lesotho appears to offer a much less stringent interpretation, and thus gives its garment exporters access to the DCCs. Furthermore, the granting of DCCs would reduce the size of the SACU Customs Revenue Pool and so under the rules of the SACU revenue sharing formula most of the cost of DCCs would be paid by other SACU members.

## 6.1 Labour

A number of important labour issues have arisen during the first years of operation. Among these have been the role of the government in recruiting and training workers, wages and working conditions of factory workers, labour productivity, the role of domestic labour unions in representing workers' interests, allegations of differential and unfair treatment of foreign and domestic workers in the factory, and involvement of international labour unions in persuading major Ramatex customers to buy elsewhere.

*Recruitment and Training of Domestic Workers*

The recruitment and training of workers was a critical issue from the very beginning. Spinning, knitting and dying, the front ends of the operation are relatively capital- and somewhat skill-intensive. Ramatex planned to rely primarily on foreign technical personnel for these operations and gradually train local workers to take over an increasing share of these operations over time.

Garment making, on the other hand, is very labour-intensive, and the required skills are not inherently difficult to acquire. Required manual skills are not too far removed from already existing domestic skills. Possibly more novel are the workplace disciplines required to work regular hours at repetitive and tedious tasks according to fixed schedules and in collaboration with hundred of other workers. International experience suggests that some initial basic training in the use of machines and materials, together with some combination of workplace incentives and on-the-job training are more than sufficient.

As mentioned earlier, under the terms of the EPZ Act the government will pay 75 percent of the costs ("direct expenditure") of training Namibian workers to work in an EPZ firm. Such reimbursement is allowed under the Act, however, "only if the contents, nature and duration of, and the costs pertaining to, the training programme concerned have, before the commencement of such training programme, been approved by the Permanent Secretary [of the Ministry of Trade and Industry] in consultation with the Permanent Secretary of Labour and Human Resources and the Permanent Secretary of Finance" (Section 25(2)). While this is a potentially generous incentive, the approval process has turned out to be significant source of misunderstanding between the company and the government.

There were no difficulties at the beginning when, prior to and during the factory start-up period, training took place at a local vocational institute whose facilities were provided free of charge by the government. Instruction was given primarily by Chinese and Philippine workers and trainers hired by the company. The government had a longer term plan to set up a specialized textiles training programme at the vocational institute and it certainly maintained an interest in having this used as a training ground for Ramatex and other textile and garment producers that might invest in the future.

After the factory start-up training continued on the factory floor, once again under the supervision of Chinese and Philippine workers brought in by Ramatex. Workers received a small training allowance while in the vocational programme. When they began work in the factory, they were paid at a reduced wage until productivity levels reached a normal or acceptable standard.

In addition to its assistance with training, and possibly slightly more controversially, at least from the company's perspective, the government also offered to assist in the recruitment of workers by making use of its register of unemployed young persons, and acting as an agent in recruiting workers from this pool. Under the process set up by the Ministry of Labour, a list of workers was provided to Ramatex, the company made a selection from the list and the Ministry then contacted the workers and offered them contracts with Ramatex.

At the Ministry's insistence Ramatex used this process for the first two hiring tranches. However, the company found little if any added value from having access to the government's worker database. The process was slow, the company gained less information

from the database than it could have obtained in direct applications from workers, and in the end many of the workers it selected in this manner turned out to be unavailable.

After working with Ministry's procedures for the first two hiring tranches, the company decided to hire directly by placing ads in the local newspapers and hiring at the gate. There was no scarcity of applicants and it was able to make selections and engage workers much more efficiently and quickly.

While use of the Ministry of Labour's recruitment services was not an absolute requirement, it is clear that the Ministry was and remains quite attached to its use. Among the possible reasons might be a belief that the most effective way to tackle unemployment is to recruit persons who are actually unemployed. While this argument might have some initial intuitive appeal, it actually reflects a simplistic and almost certainly incorrect view of the way labour markets work.

An increase in demand for labour is likely to have a similar overall impact on the labour market, and especially on unemployment, regardless of whether it is satisfied initially from those that are unemployed. This is especially so in a labour market with large numbers of unemployed persons who would be willing to work at prevailing wages. If the increase in demand is met by hiring someone with an existing job, that person's employer will have to enter the labour market to replace the lost worker. And so on. The ultimate impact on unemployment is unlikely to depend on whether the unemployed are the first, second, third or twentieth to be hired along this chain of resulting new hires.

Furthermore, as the Ramatex experience shows, the imposition of arbitrary recruitment procedures increases the overall cost of hiring new workers. Anything that increases the cost of hiring labour cannot help but decrease the demand for labour by new investors. This is certainly contrary to the government's goal in seeking new investment. More generally, restricting firms' choices and imposing arbitrary procedures on labour recruitment practices is likely to decrease Namibia's attractiveness as an investment location.

Discussions with senior officials suggest another possible reason for the government's attachment to this hiring process—to make it easier to monitor and sanction "approved training activities" as is required under the terms of the EPZ training incentive. It seems that the Ministry of Labour would prefer to approve training expenditures if and only if they are made in respect of workers hired through its own register and recruitment service. This might be accompanied by a belief that training will be more valuable and/or easier to monitor if it is conducted in an approved training centre, and in particular in the vocational training centre that was provided to Ramatex for initial training prior to the opening of the factory.

Approval of training subsidies has been a major issue between the company and the government for several years, with Ramatex insisting on payment of outstanding claims totalling N$29 million in training subsidies, of which the government paid a token amount of N$1.9 million in early 2007. The key issues are whether the training plans were approved in advance and whether direct expenditures can be documented as required by the EPZ Act. Underlying the problem is almost certainly a lack of transparency and/or clarity in the regulations governing training incentives granted to EPZ firms.

Central to the issue appears to be a question of whether the government wishes to use the EPZ training incentive to support training measures designed and operated by the company in order to enhance its own productivity concerns, or whether the government wishes to achieve some broader or different training outcomes that are not necessarily of direct interest to the company. If the latter is the case, it would be useful for it to articulate a clear rationale for the particular training objectives it has in mind, including a justification for choosing means and objectives that differ from those of the companies that are in the actual businesses for which training is being provided. Furthermore, it should recognize the training incentive as payment to the company for training services provided rather than as a subsidy to investment.

Without more information on the details of company's dispute with the government over training incentives, it is difficult to comment further. However, we have not yet seen a rationale for the government's training objectives to differ markedly from those of the company, or for the government to tie the training incentives to particular recruitment procedures and or training venues. Similarly, we have not seen a rationale for the government's insistence on the company's use of the Ministry of Labour's unemployment register or recruitment "assistance." The Ministry of Labour has many legitimate reasons for maintaining a database of unemployed workers; but restricting companies to the use of that database for recruitment purposes serves no obvious purpose, restricts choices of employers and increases the cost of labour to them.

*Labour Practices: Wages, Working Conditions and Productivity*

Wages and working conditions have played a major role in popular perceptions of conflicts with the company. The press has reported a number of labour protests and strikes, Namibian unions have fought hard for representation at the factory, and local researchers have undertaken a number of studies of wages and working conditions in the factory. Rather than attempting a comprehensive narrative and analysis of all the issues, we highlight some of the key themes that have arisen.

*Applicability of Namibia's Labour Law*

The original EPZ Law that was passed in 1995 excluded EPZ firms from coverage under Namibia's labour law (the Labour Act of 1992). This is not uncommon, and indeed a principal purpose of EPZs and similar arrangements in many countries is to provide a short cut around burdensome laws and regulations, including those in the labour market. The first best solution, of course, is appropriate regulatory and legal reform. But if that is politically difficult, setting up special zones in which more streamlined or better laws and regulations apply can be a useful shortcut. The danger with this solution is that replacing burdensome or dysfunctional relations with a regulatory vacuum is not necessarily a step forward. In particular, it could expose workers to exploitive and/or dangerous employment practices.

In less than a year, however, the EPZ Law was amended to eliminate the exclusion of EPZ firms and workers from coverage of the Labour Act, with the one exception that strikes and lockouts would be outlawed for a period of five years (i.e. until 2001). This was to provide necessary protections to workers, while at the same time giving new investors who might have concerns about the Namibian regulatory environment some protection against certain labour actions (and give symmetrical protection to workers against lockouts). By 2001 the Labour Act would apply in full to all EPZ firms.

Many local accounts of EPZ policies in Namibia, and especially those of the Ramatex experience, continue to recall the initial exclusion of EPZ firms from Labour Act coverage. The fact is that by the time Ramatex was approached about investing in Namibia, and certainly by the time it started hiring, its actions were subject to all the provisions of the Labour Act.

Concerns have been widely expressed, nevertheless, about company actions that have been in violation of the Labour Act. What is less clear is the extent to which such issues have been resolved and if so, how—whether through discussions, negotiations or legal enforcement of the Act. However, a number of observers have remarked on how these issues have "gone quiet" recently; once again it is unclear whether this indicates resolution of most of the issues and if so what has been the role of the Labour Act relative to other mechanisms.

One important factor that has tended to be neglected in discussions of Labour Act enforcement has been the role of foreign buyers. These buyers, and especially large American ones that have been Ramatex' main customers, have very elaborate and strict codes of labour conduct that they impose on all contractors. Among the key focal points of their company audits is compliance with local labour laws. This is an important source of

external monitoring and enforcement of labour laws worldwide, and there is no reason to expect Namibia to be any different. We have seen no reference in the Namibian discussions to evidence from buyer audits of Ramatex compliance with the Labour Act or with their own codes of conduct. We return to this further below.

*Wages, Working Conditions & Workers' Rights*

The first few years of factory operation were marked by many labour-management conflicts over workers' rights and working conditions. These are documented in a useful and informative anecdotal narrative published by the Labour Resource and Research Institute (LaRRI) in October 2003. Among the issues raised in this study are:

- discrimination (age and gender) and unfair requirements (pregnancy tests) in company recruitment procedures,
- unclear rules and criteria for promotion from trainee to regular worker (with significant wage implications),
- long working hours,
- unclear and unfair overtime allocations and demands,
- lack of transport to and from the factory,
- ongoing conflicts with foreign workers and supervisors,
- inadequate health and safety equipment, facilities and procedures, resulting in work-related illnesses and injuries,
- unfair (or non-existent) sick leave policies, even for work-related accidents,
- low basic wages and insufficient overtime work and compensation,
- low basic wages and excessive demands to do overtime work,
- unfair administration of productivity bonuses,
- unfair and illegal dismissals of workers for engaging in union-related activities, strikes and protests.

These issues were frequently reported in the local press and were the basis of and background for formation of a workers' union. In the absence of an existing textile industry or associated union, the Namibia Food and Allied Workers Union (NAFAU) undertook to organize and represent the Ramatex workers. As part of its drive to gain recognition and recruit workers, NAFAU played a major role in publicizing workers' complaints and even extended their protests to issues surrounding the overall environmental impact of the factory, and especially its dying operation.

Prior to agreeing and signing a formal recognition agreement with Ramatex in October 2002, union officials and organizers were denied access to company premises. Following a short strike in 2002 NAFAU was recognized as exclusive bargaining agent for the workers, and two worker-elected shop stewards and one union official now have a company-furnished office in the factory. Under the recognition agreement substantive labour issues, including wages, will be negotiated every three years.

A further wildcat strike in April 2003 was followed by the company's decision to close the factory for two weeks and the contentious suspension of several hundred workers who were accused of masterminding the strike. According to LaRRI, these strikes and related controversies were vital in expanding union membership and in achieving considerable improvement in overall working conditions. Whatever complaints and concerns might remain, the fact is, according to company management, that labour turnover rates are very low, in the range of 2 to 5 percent per year, of which 2 percent is attributed to HIV/AIDS.

NAFAU's decision to enlist the assistance of the International Textile, Garment and Leather Workers' Federation (ITGLWF) to publicize Ramatex' alleged violations of workers' rights became a source of considerable controversy and is alleged to have had serious consequences for the company and the workers. It is claimed by both the government and the company that the ITGLWF's approach to US buyers caused two of Ramatex' main customers to cease ordering from Ramatex Namibia. The loss of two major customers, in turn, is cited as one of the main reasons for the scaling back of Ramatex garment production and the closure of the Rhino clothing factory. NAFAU officials deny asking the ITGLWF to turn buyers away from Namibia. But it would not be surprising, given the sensitivity of US buyers to ethical buying codes, for them to react in this way to even the slightest hint of such pressure from international unions.

A new three year labour agreement was negotiated with NAFAU in late 2006. A major feature is an 80 percent increase in the basic monthly wage, accompanied, as before, by piece rate productivity and overtime bonuses. According to the company, however, at prevailing productivity levels the piece rate bonuses would be highly unlikely ever to affect net take-home pay. In other words, the large increase in the base monthly wage has nullified any possible the incentive effects of the piece rate system.

*Foreign Workers*

Use of non-Namibian workers was part of the initial Ramatex investment plan. These foreign workers were intended to serve two purposes: to train local workers as described earlier, and to ensure sufficient productivity levels during the initial years of operation to meet buyers' requirements in terms of quality of product and speed of delivery. For the three years that data are available, the share of foreign workers in the total labour force has fallen steadily, from 24 percent in 2004 to 14 percent in 2006, which is consistent with the initial plans.

While the company has faced few if any regulatory issues in its employment of foreign workers, their use has generated a certain amount of controversy arising from complaints of Namibian workers, unions and NGOs, and from press reports about these issues and more general community complaints and concerns.

- Foreign workers work under multi-year employment contracts entered into without involvement of the local union. Basic wages are higher. They get far greater amounts of overtime work than local workers, leading to complaints of unfairness and non-compliance with the Labour Act. The company argues that this allocation arises largely from the willingness of foreign workers to take whatever overtime work is available, as well as the greater experience and higher productivity of these workers, all of which are essential when there is a rush to meet a delivery deadline.

- As part of their contracts, foreign workers are supplied with company housing, most of which is in specially constructed dormitories on the factory premises. Construction of such housing is alleged to have been done without all necessary regulatory permissions and thus to be in violation of Namibian law. When the company hired several hundred Bangladeshi workers to do embroidery, a scarce skill among the local labour force, the workers were provided with off-site accommodation. This led to the generation of some truly incredible stories, including one claiming that 400 workers were being housed in a single suburban house and due to obvious space constraints were even sleeping in the swimming pool and could only bath once or twice a month. This story is included in LaRRI research studies and was repeated to us by senior Namibian businesspersons. The true number of workers accommodated in this house is apparently closer to 40 rather than 400, which might still indicate a certain amount of overcrowding. The story was then used as an explanation for protests by these Bangladeshi workers and for their ultimate repatriation to their home country. According to the company and to government sources, however, the facts once again were quite different. The Bangladeshi workers' differences were with the foreign labour agency that had

misrepresented or reneged on the arrangement under which it had organized their employment with Ramatex. The fact that incorrect stories such as these gained such wide currency suggests some more general community concerns about foreign workers and/or the use of the Ramatex investment as a platform for dealing with other political issues in the country.

- As indicated earlier the LaRRI studies report on many different kinds of conflicts between foreign and Namibian workers. Some of these relate to the allocation of overtime work between Namibian workers and foreigners, who were almost always willing to earn more income in this way. Namibians often had conflicting external concerns related to family and other personal obligations as well as logistical and safety concerns arising from absence and/or high cost of local transport at the factory, something that was irrelevant to foreign workers who had lodgings on the factory site. Many Namibian workers apparently also complained about conflicts with foreign supervisors, many of which appear to originate in linguistic differences and possible lack of cultural sensitivity on the part of the supervisors. These conflicts appear to have been aggravated by perceptions that foreign workers enjoyed differential privileges in a wide variety of workplace activities. At the same time, the LaRRI studies indicate that Ramatex management was aware of and went to at least some effort to resolve egregious conflicts and to discipline foreign workers who did not show appropriate behaviour and sensitivity.
- The flip side of the complaints about special privileges enjoyed by foreign workers was a concern examined in another LaRRI study about unfair exploitation of these workers. This concern arose from alleged complaints about a number of issues, including poor food, inadequate annual leave time (and far less than the minimum required by Namibian law), the constant threat of termination and forced return to their home countries, the burden of onerous contract fees paid to foreign labour agents, the threat of having to pay their own return air fare if they wished or needed to terminate before the end of their multi-year contracts, the lack of cultural activities for them in Windhoek, and the control exercised over them by the company by virtue of the requirement that the workers deposit their passports with the company. The LaRRI study was based on a very small sample of foreign worker interviews. Nevertheless many stories circulated in the press, including reports of undocumented strikes and other labour actions by foreign workers (LaRRI 2005 report).

*Productivity*

Discussions with Ramatex officials identify labour productivity as a key issue for the company. While indications in the very early days were that local workers were relatively easily trained, subsequent experience suggests that productivity levels are less than expected or hoped for. Productivity is especially important inasmuch as it has an impact on quality of output, (rejection rates), and speed of production, especially when working with tight deadlines to meet customer demands and shipping schedules. Complexities of logistics arising from the factory's location make production schedules especially important, since even small delays can mean substantial shipping cost increases and can result in much longer delivery delays. (Logistics are discussed in more detail below.) Periodic production peaks are a feature of this industry in general and especially so when producing in this location. High levels of productivity can help to reduce the incidence of such peaks. But it is especially during these peak times that productivity is very important. Needless to say, availability of workers who are willing to work such overtime hours is also important.

While the number of foreign workers has been reduced considerably, it is clear that the company still relies on them disproportionately, especially during production peaks. This is presumably a result of a combination of their higher skill levels and of their availability and willingness to work long overtime hours. As mentioned earlier, the lower willingness of Namibian workers to undertake such overtime work is due in part to outside family and other

obligations and to difficulties and costs of commuting from the relatively remote factory site. Furthermore, as both the union and at least one buyer audit point out, the amounts of overtime work undertaken by Chinese workers sometimes exceed the amounts permitted under the Namibian labour law and regulations.

On the other hand, some of the Namibian workers are reported to be resentful of the apparent tendency for Chinese workers to benefit from much greater access to overtime work.

Can productivity be improved? Less reliance on intense production peaks might help. But logistical constraints place some limits on this. As will be seen below, some of the logistical difficulties arise from low order volumes. To the extent that low volumes arise from low productivity and consequent high costs there is a potential vicious circle here. Similarly, if the need for intense production peaks arises from low productivity at non-peak times, we have another vicious circle.

Some reports suggest that linguistic, “cultural” and other differences between supervisors and workers, and inadequacies in and unclear or inconsistent application of productivity bonuses are other possible causes of low productivity. Most reports of this type are based on information obtained in the early days of operation, at a time when the workers, the union, the government and management were contesting “territorial rights” over working conditions and practices. To the extent that such issues have been and are continuing to be resolved, this will certainly help to deal with the productivity problem.

### 6.2 Logistics

Logistics are critical to the competitiveness of firms in the global textile and garment industries. Buyers need to respond constantly and speedily to changing seasons and fashions. To meet buyers’ demands producers need access to logistical networks that can deliver materials to their factories when needed and deliver finished products to the buyers equally speedily and efficiently. Because of rapidly changing fashion trends, higher inventories cannot generally compensate, even at higher cost, for poor transport networks.

The Ramatex Namibia complex is not particularly well connected to global transport networks. The factory is located more than four hundred kilometres inland from the nearest port at Walvis Bay. Rail and trucking capacities to the port are limited. The port in turn has limited traffic to either Asia or the US. The next nearest major port is Cape Town and can be reached by relatively infrequent and slow shipping feeder services from Walvis Bay or by speedier but more expensive road transport across an international border to South Africa.

*Managing the Ramatex Namibia logistics has not an easy task*

The fact that the operation is largely vertically integrated helps. Raw cotton is by far the most important imported material, with most of it coming from West Africa. It is a bulk product and stores relatively easily in the dry Namibian climate. As it happens, there is considerable excess factory space that can be used for warehousing the raw cotton. So it is possible in this case to use inventories to deal with slow or unreliable shipping.

As mentioned earlier, however, the factory does rely on imported yarn and fabric, almost entirely from Asia, for about 20 percent of its needs. Luckily, ocean shipping between Namibia and Asia has turned out to be much less of a problem than anticipated, in terms of cost and speed of service. Overall, therefore, long distance shipping has not been a major logistical constraint on the input side. However, local and regional shipment of imported inputs has been an ongoing problem.

Fabric shipments coming from Asia through South African ports were often delayed due to port inefficiencies and Customs issues. South African sensitivities about Asian textile imports led Customs authorities to treat all such imports with suspicion, resulting in many layers of red tape and regular delays in transhipments through Durban, Cape Town and Port

Elizabeth. These delays sometimes made it necessary to fly in fabric and other inputs that were delayed by Customs red tape in South African ports.

It was not only South African ports that created shipping difficulties, however. In fact, moving imported inputs from Walvis Bay to the factory sometimes has been more of a problem than long distance ocean freight.

Movement of inputs and of finished goods between Walvis Bay and the factory in Windhoek was seen as a challenge from the very beginning, especially in light of the high volumes of shipments anticipated and the critical importance of speedy deliveries in order to meet buyers' needs and to accommodate infrequent ocean shipping schedules into and out of the port. The high cost of road transport meant that the rail link operated by TransNamib would be a critical factor in the company's success.

Under the auspices of the Ministry of Trade and Industry, an MOU was negotiated and agreed between TransNamib and Ramatex. As an SOE TransNamib felt itself under some pressure to accommodate broader government policy concerns in dealing with Ramatex and there is a general feeling within the company that many features of the deal were not necessarily in TransNamib's general commercial interest.

The key elements of the MOU were details and commitments on service levels and prices. The agreement gave TransNamib the exclusive right to carry Ramatex containers between Walvis Bay and the factory via the TransNamib container terminal in Windhoek, at volumes of 450 containers per month at peak. TransNamib committed to a transit time of 12 hours between the Walvis Bay terminal (Namport) and the Windhoek container terminal, and a delivery schedule of 20 containers per 12 hour period from the terminal to the factory once it had completed expansion of the Windhoek terminal (12 containers per 12 hour period before that). On TransNamib's part, this required expansion of the Windhoek container terminal (not exclusively for Ramatex traffic it should be noted) and provision of fixed number of truck trailers based on 1 trailer for every 5 containers to be delivered per day.

Prices were set for shipping between Namport and Windhoek, for transport between the Windhoek terminal and the factory, for post-free-period container storage, and for site handling of containers at the factory (placing them at ground level). The MOU included provision for a fixed price until the end of 2003, except to cover the costs of interim fuel price increases, and annual price adjustments subsequently in accordance with changes in TransNamib input costs. According to TransNamib sources, the agreed prices represented a discount of 20 to 25 percent relative to normal charges.

TransNamib agreed to maintain contingency plans at all times to minimize delays caused by service disruptions and to provide, at its own cost, alternate transport arrangements when, except for reasons beyond its control, it could meet the agreed delivery schedules and service levels.

From the very beginning Ramatex complained of problems with TransNamib delivery schedules, primarily in the form of delays in moving goods from the port and between the Windhoek terminal and the factory. In early days this might have been the result of teething problems in launching a new service. Subsequently, the problems have come from a variety of sources, the most important of which according to TransNamib have been breakdowns of old equipment. These breakdowns lead to backlogs on all of TransNamib's deliveries, and force the company to prioritize across all of its customers. Ramatex' inability to generate the traffic volumes envisioned in its original plans and in its MOU with TransNamib have made it a marginal customer in such situations. TransNamib's priorities in these cases have to be its biggest customers. Delivery of large shipments of bulk fuels for power generation, for instance, tends to generate more immediate attention than Ramatex shipments. This order of priorities arises not just from Ramatex' low volumes, but also from the concessional prices agreed in the MOU which, according to TransNamib, barely cover the marginal operating costs of handling the Ramatex traffic.

TransNamib is aware of its more general capacity problems and is dealing with them. It has increased the capacity of the Windhoek container terminal and has been upgrading its fleet of trains to increase overall capacity and reliability of service.

The most critical logistical problem for Ramatex is in shipping finished garments to its final customers in the US. The ideal shipping route would be trans-Atlantic vessels travelling directly from Walvis Bay to the US east coast. Prior to Ramatex' arrival there was no such regular service. Ramatex' plan, developed in collaboration with major buyers and shippers with whom it had an established relationship from business elsewhere, was to provide sufficient volumes to justify a weekly service from Walvis Bay. The target of 450 containers per month was expected to suffice. A minimum of 70 containers is needed to justify a stop at Walvis Bay. Ramatex' failure to generate such volumes have made it necessary to rely primarily on other alternatives, most of which involve transhipment somewhere else along the Atlantic coast, generally Cape Town. This has generated a number of additional problems.

The first is cost. Transhipping inevitably adds to shipping costs and delivery times, both of which reduce the competitiveness of the Windhoek factory. The least cost transhipment method is by feeder vessel from Walvis Bay to Cape Town. Once again, however, this adds time pressure to production schedules in order to meet the feeder vessels and to accommodate the delivery time for the ships to travel to Cape Town and for the containers to be transferred to a trans-Atlantic vessel.

Failure to produce in time to use these feeder vessels makes it necessary to ship containers by road from Windhoek to Cape Town. This is significantly more expensive than coastal feeder vessels. Shipping by road has additional complications due to the need to go through customs procedures at the Namibia-South Africa border. Despite the fact that South Africa and Namibia are members of the Southern Africa Customs Union (SACU) and despite the fact that garments from Ramatex are in sealed containers passing through South Africa in transit for international shipment (and subject to Kyoto Customs Convention Rules on goods in transit), these customs procedures are non-trivial and on occasion enormously burdensome. On at least one occasion several containers were held at the South African border and opened and unpacked for customs inspection by the South Africa Revenue Service (SARS). This is not just costly in itself; the fact that containers and packaging have been opened might create even greater complications with customs and customers at the final destination in the US.

The reason for such inspections is unclear. However, according to one SARS official, the most likely explanation is that the inspectors were monitoring shipments that might possibly involve attempts to circumvent South African controls on garment and textile imports from China. Similar problems sometimes occurred when Ramatex shipped fabric from Namibia to its sister garment companies in South Africa.

Such transhipment problems are not confined to the South Africa-Namibia border post. Ramatex' freight handling and customs clearing agents report at least one occasion when several containers that had come by feeder vessel from Walvis Bay were taken out of their stacks at Cape Town and opened for inspection while awaiting loading onto the intercontinental shipping vessel. Such actions could be extremely costly if they cause containers to miss loading onto the next vessel. But even without that they could cause significant costs when the containers arrive at their destination. We are not aware of any explanation for this kind of inspection of goods that never enter any part of the South African customs area other than the (presumably secure) transhipment facility at the Cape Town dock.

The prices paid for freight forwarding of Ramatex goods give an indication of the cost of these kinds of transhipment hassles. According to one local freight forwarding company, Ramatex shipments have been paying about 50 percent more than other offers simply in order to employ a company whose principals are former Namibian customs officials who

have good relationships and experience in dealing with SARS and with Namibian and American AGOA procedures. According to this report, this amounts to an extra N$4-5,000 per container on transhipments by road to Cape Town. This is apparently a price worth paying if the agents can deal quickly and efficiently with incidents such as the arbitrary inspections at the South African road border post and at the Cape Town docks.

### 6.3 Environment

The environmental impacts of its factory have been the third major issue faced by Ramatex in Namibia. The two most important issues relate to water—the sheer quantity of water needed on a daily basis to operate the factory, particularly the water-intensive dying plant; and the need to treat the used water and dispose of saline and other toxic effluent. A third issue, arising primarily within the confines of the factory itself, is the impacts on workers of the particulate matter arising from the spinning, knitting, cutting and sewing operations.

All three of these issues have been the focus of considerable attention by labour, NGOs, local government and other stakeholders and observers.

*Water*

The water issues are important for several reasons. First, water is an extremely scarce resource in Namibia in general and in the Windhoek area in particular. Second, there are no easy or inexpensive ways to dispose of saline and other wastes from used water in Windhoek. And third, according to company officials water management was a key stumbling block in reaching an agreement to set up the factory complex in South Africa. The willingness of the Government of Namibia to reach a speedy accommodation on this issue was possibly the most crucial factor in the company's decision to come to Namibia instead of South Africa.

The negotiations over water supply involved primarily Ramatex, the City of Windhoek and the Ministry of Trade and Industry. The general picture that emerges is that of the City as the primary advocate of environmental concerns and the MTI as a go between, with a strong interest in achieving an agreement with Ramatex. According to the company's initial plans, it would require 6,000 $m^3$ of water per day. After some negotiations, this was reduced to 2,000 $m^3$ and this was to be provided for the first two years at a guaranteed fixed price that barely covered the city's estimated marginal production costs. While this price is low when measured against true opportunity costs in Namibia, Ramatex claims that it is significantly (10 times) higher than in Malaysia. Subsequent price increases would be based purely on increases in actual production costs. As mentioned earlier, water (and electricity) connections were provided free by the local government (and partially compensated by the MTI).

By far the most controversial environmental issue has been that of wastewater treatment and disposal. A major by-product of the dying operation is chemical- and dye-laden water that requires substantial treatment to prevent it from causing harm to the local environment and especially to the local water supply. To prevent such problems it is necessary to separate the dangerous wastes from the water and then store and eventually dispose of them in a non-harmful manner. Regardless of the methods used, there remains a need to dispose of a variety of toxic chemicals and residual saline effluent. Disposal of the saline effluent is a particularly serious problem given the absence of nearby seawater into which to flush it, or any long-term storage that would isolate these salts from Windhoek's natural and quite limited aquifer

Under the initial agreement the city constructed 10 large lined water treatment ponds and would also provide wastewater treatment services at a relatively low cost. For this purpose the city needed to construct a new wastewater treatment plant at a cost of USD 18 million (paid for by MTI). The company also constructed its own in-house water treatment plant, based on the same advanced standards used in its factories in other parts of the world. However, these other locations did not face the same water scarcity and disposal problems

as found in the arid Namibian environment. Despite these large investments and many claims by the company (largely supported by the MTI) of the effectiveness of these systems in managing and treating wastewater, the company has been the target of ongoing accusations of sub par performance, with charges ranging from water pond leakage to mishandling of effluent storage and disposal.

With the assistance of an international donor (DANIDA) an environmental audit of the entire operation was conducted by Danish and South African experts. In addition to the environmental impact investigations, the project provided training to Ramatex workers in clean production methods. These activities have been coordinated at least in part by the Ministry of Environment and Tourism.

The audit identified a number of areas for improvement in production methods and wastewater management. While the audit is not in the public domain, some of the key results have been made known. Among these were identification of means to improve in-house dying processes and a plan to improve water treatment facilities at a total cost of about USD 13.6 million of which the government would pay USD 10 million and Ramatex would be expected to pay the remainder. Ramatex disputes these cost estimates and suggests that its own costs from these improvements would be far more than the amount committed by the government as its contribution. This has been a major issue in ongoing discussions to attempt to resolve the commercial and other problems faced by the company and to determine a strategy for future Namibian operations.

What is most striking about the handling of the water treatment issue is the extent to which it deviates from the "polluter pays" principle under which agents responsible for external environmental costs are generally held accountable for and are required to provide compensation for these costs. Aside from the basic ethical attractiveness of this principal, its economic attractiveness arises from the incentives it creates for polluting firms to internalize the costs of their environmental impacts and to behave in an manner that takes account of the costs and benefits of environmental impacts and of alternative means of control and abatement with a minimum of external regulation.

*Factory Air Quality*

According to a number of accounts, especially from workers and their representatives, poor air quality due to particulates produced in the spinning, knitting, cutting and sewing operations has been a source at least of considerable discomfort and quite possibly, and much worse, of short- and long-term medical danger. Among the claims in this regard is that the company has not provided adequate facemasks as an elementary means of helping workers deal with the danger.

This is related to a range of other workplace quality issues that have been part of the agenda of union organizers and representatives since early days. These include questions about the adequacy of health facilities on the premises and of general health care and sick leave benefits for workers. Resolution of many of these issues has been achieved through negotiations with the union, and implementation is monitored as well by international buyers as part of their own compliance audits.

## 7 Perceptions, Politics and Public Relations

When an elephant suddenly appears in the neighbourhood it is bound to attract attention. Whatever it does will be noticed. Observers will be quick to shift blame for real or imagined mishaps it might cause, and will scramble to take credit for any benefits arising from its presence. Its sheer size will give rise to all kinds of myths, and these might be used to promote or denigrate causes that have little to do with the elephant itself.

Ramatex' arrival in Namibia was hailed as a vindication of an industrial development strategy that had been under increasing scrutiny and attack for failing to bear fruit over more

than ten years of independent government. It began production only two years before a new election (November 2004) that would replace the country's first and only president since independence. In these circumstances it is not at all surprising that the investment became a lightning rod for discussions about a wide range of development issues.

The size of the investment together with a charged political atmosphere created challenges for both the government and the company. Inexperience on all sides with such a large and novel (for Namibia) investment increased the challenges. Resulting difficulties are illustrated by some of the relationships that developed among key stakeholders. While some of these accounts refer to specific incidents or specific points in time, it should also be remembered that all of these relationships have undergone substantial change over the life of the project as all stakeholders climbed a steep learning curve in dealing with each other and with the new behemoth that was Ramatex.

*Ramatex and the MTI*

Following the investment agreement between the government and the company, and throughout the entire planning, construction and start-up periods, Ramatex was provided with an office in the MTI Investment Centre, and it was occupied on a more or less full time basis by the senior Ramatex representative in Namibia. This arrangement made sense for many reasons and in particular permitted instant and easy communication in working with emerging issues as the investment proceeded. In light of some of the later conflicts and issues, however, the office arrangement created an image of a company-government relationship that might not have been sufficiently arms-length. Was the government a captive of the company? Such perceptions were reinforced by the government practice on several occasions of responding on behalf of the company to charges and questions about the company's environmental and labour practices.

*Ramatex Namibia and Ramatex HQ*

The company appears to have had only one representative based in Namibia during the planning and construction phase, and she took over management of the factory operations after start-up. There was a general perception that she had very little authority to deal directly with any significant contractual or policy issues; all such decisions had to be referred to company headquarters. The absence of a company representative who was accountable and responsible for major issues in relation to the Namibian operation deprived Namibian stakeholders of direct contact with those with whom they were ultimately dealing in any discussions or negotiations. To some in Namibia this was interpreted as a sign of the company's lack of real commitment to and interest in the Namibian operation. To others it presented a legal issue regarding the company's lack of compliance with Namibian company law related to necessary local management structures of Namibian companies. Regardless of perceptions, it appears that the absence of direct communication with the company's real decision-makers in Malaysia sometimes hindered problem-solving processes and made it possible for even minor issues in labour or government relations to be blown up into far larger problems than necessary.

*MTI, Ramatex and Civil Society*

Neither the government nor the company has been particularly successful in managing their relationships with civil society and the press. Ramatex almost certainly relied too much on the government to "sell" its story to the local community and had no in-house community or public relations staff to manage these functions. On the few early occasions when it did attempt to respond to community concerns, it did so in a relatively confrontational and belligerent manner that tended to escalate rather than defuse tensions. This, together with the government's frequent assumption of public relations responsibilities for the company, had the effect of increasing suspicions about the government-company relationship and about the government's motives in supporting the firm. Environmental and labour groups, on the other hand, appeared to be quite effective in casting doubts about the overall impact of

the investment, especially in the areas of their particular concern. Some observers attribute this in part to the uncritical way in which the press was willing to write up and disseminate "civil society" views.

*Intra-Government Relations*

The government itself represents many different interests and responsibilities, and so it is not surprising that it has not spoken with a single voice and has not always acted in an entirely consistent manner in dealing with Ramatex. As the ministry responsible for the Namibia Investment Centre, the MTI has generally been the key contact point for government policy towards Ramatex, and has tended to be a strong supporter of the company in all such dealings. Ministries of Labour, Environment and Water Resources have tended to speak to their particular interests. While these might not always coincide with those of the MTI, there have been occasions in which unnecessary differences have arisen, such as when Labour has insisted on measures that are contrary to the interests of the company (and the MTI) and that appear to do little to protect the labour interests they represent. Differences such as these appear to arise from different perspectives on the role of markets and governments, on foreign investment and on overall development strategy. Fundamental differences such as these generally tend to come closer to the surface in times of heightened political activity such as Namibia was experiencing in Ramatex' early years there.

There were also differences between the central and local governments and between the government and certain state enterprises.

While the City of Windhoek stood to reap large gains from the Ramatex investment, it also had serious concerns about water supply and wastewater management issues. It was also required to make major infrastructure investments and undertake special concessionary commitments on water and electricity pricing. Some of these costs, especially the major investments, were compensated by the MTI. But others were not and created considerable tension within the City government, especially in light of potential environmental implications that have been discussed in an earlier section.

There are similar stories with state enterprises such as TransNamib and the port authority at Walvis Bay. While the Ramatex investment brought the prospect of substantial new business and of catapulting them to substantially higher service levels directly and indirectly through follow-on investments made possible by the higher volumes on key transport routes, they were also required, in the national interest as well as their own, to offer significant concessions to Ramatex. When much lower than promised volumes exposed the hidden risks of investments to enhance and increase services, a certain amount of disappointment on the part of these state enterprises would not be unexpected.

*Local and International Labour, Government and Buyers*

The Ramatex investment created an opportunity for organized labour in Namibia to establish a substantially expanded presence in the manufacturing sector. The political activities surrounding the upcoming election and the changing of the guard in Swapo added a further level of complexity to the process, and labour relations issues inevitably took on a variety of political overtones. In this environment there was bound to be a certain amount of posturing on all sides, and this led to actions and outcomes that would sometimes be regretted. Whatever the chain of events that led to the ITGLWF's approach to certain US buyers and their subsequent decision to abandon Ramatex Namibia, for example, this outcome could not be viewed as desirable for the union, for the workers or for the company.

While this particular episode has had lasting effects, the overall atmosphere appears to have cooled down considerably in recent years. This can be attributed to a number of factors including growing maturity and confidence of the local union, the completion of the election in 2004, the appointment by Ramatex of a new factory manager who had a special mandate

to deal with labour and union relations issues. There clearly has been considerable learning on the part of all stakeholders.

*Foreign Relations:* At the time of its investment Ramatex was a private company listed in the Kuala Lumpur Stock Exchange. Its interest in Namibia is purely commercial. At another level, however, Namibia and Malaysia have a somewhat special diplomatic relationship. Malaysia is the only southeast Asian country in which Namibia has an embassy or high commission (the only other two Asian embassies or high commissions are in China and India). This special relationship has been manifested in many high level visits and contacts including a state visit to Namibia by Malaysia's Prime Minister in April 2007.

It is difficult to know whether this special relationship might have any bearing on the resolution of commercial issues related to Ramatex' ongoing presence in Namibia. The government of Namibia might hope to apply pressure on Ramatex through the Malaysian government. However, it is unlikely that such pressure would lead the company to accept terms that are contrary to the interests of its owners. At least equally likely is the possibility that Ramatex could exert pressure on its own government to persuade the government of Namibia to improve the terms of any offers for the company to stay in Namibia. While the government has responsibilities to its citizens, workers and taxpayers that parallel those of Ramatex to its shareholders, the costs and implications of government incentives are much less transparent than profits and losses appearing on the Ramatex accounts.

## 8 Lessons

### 8.1 AGOA Preferences

The Ramatex decision to invest in Namibia shows the importance of AGOA preferences in shaping investment decisions and creating employment opportunities in African countries. Trade preferences can be a powerful tool in creating jobs in developing countries while at the same time meeting the desire of American buyers to diversify sources of supply.

The experience of Ramatex in dealing with the commercial difficulties following the initial investment show as well the critical importance of flexible and practical rules of origin in preferential trading arrangements. Ramatex Namibia was designed as a vertically integrated spinning, knitting, dying, cutting and manufacturing operation that might have appeared capable of meeting even the most stringent rules of origin, including the yarn forward rule that was originally imposed by AGOA. However, even at its peak of operations it was still necessary in order to meet buyers' needs to import significant amounts of third country fabrics that could not be produced, or at least certainly not at an acceptable cost, in the Ramatex factory. A requirement to adhere to the initial yarn forward rule of origin would have made it impossible to do this and continue to enjoy AGOA preferences.

As the commercial difficulties continued, it became necessary to shut down the spinning, knitting and dying operation. If the company had been required to adhere to the yarn forward rule of origin, this would have forced to shut down the much more labour intensive garment factories at the same time. The ability to follow the single transformation rule of origin made available to LDBCs gave the company the flexibility not only to try to keep the garment manufacturing factories operating, but also to seek strategic partners and explore other options for long run sustainability.

Any threat remove the third country fabric privileges or to invoke "commercial availability" requirements as has been done in the case of denim in Lesotho would seriously impair the competitiveness and hence threaten the long-term viability of this investment (Flatters 2007).

### 8.2 Namibian Incentives: Maybe Necessary, But Not Sufficient

Namibian government incentives can also be important in attracting investments. But no matter how generous or well thought out, they are not necessarily sufficient to attract and maintain them. Failure to address cost and investment issues at TransNamib arising from

concessional prices and service guarantees, for instance, led to scheduling problems for Ramatex, substantial logistical cost increases and dissatisfaction of key buyers. The value of some incentives can be substantially eroded by implementation problems and/or by offsetting regulations, processes or requirements that raise costs unnecessarily. Clarity of implementing regulations is certainly of huge importance. This is illustrated by controversies over the conditions for the granting of training allowance subsidies and over the use of Ministry of Labour recruitment support. Whatever is done by way of special incentives, the government cannot afford to neglect the overall regulatory, fiscal and investment environments that are all key to the sustainability of investment and long term development.

### 8.3 Incentives Can Be Costly

Namibian government incentives have been very costly; some of these costs are transparent and others are less so. One gets little indication that the government had the opportunity to undertake any real examination of their net benefits and costs.

Time appeared to be of the essence when the major decisions were being made. The government already had in place a generous package of incentives as part of its EPZ program. Under pressure to reach a deal, it added a number of additional sweeteners for Ramatex, some of them quite costly, especially the water supply and wastewater management commitments.

Were these additional incentives necessary? Even if they were necessary, was it prudent to make the promises and commitments on water supply and wastewater management without a more careful examination of long-term costs and implications?

Ignoring the polluter pays principle passed a large share of the burdens of wastewater management from the company to the government, without necessarily providing the right financial incentives for the firm to take account of environmental impacts of its actions. The costs were high and continued to grow, even though the factory never operated at close to planned capacity.

In return for assuming these costs (and those of a number of other major incentives with almost no direct fiscal contribution from the company, ever) the people of Namibia expected to get 10,000 to 15,000 new jobs and some (heavily subsidized) skills enhancement provided by the company.

In the end it appears that the most controversial and heavily subsidized investments have been abandoned.

The statutory incentives offered under Namibia's EPZ Law are quite generous in their own right. To go beyond these incentives without a clear justification in terms of extraordinary social or economic benefits risks the twin dangers of offering more than necessary to attract the investment and incurring costs that exceed any possible benefits.

### 8.4 Internal Government Coordination

Attracting investment and creating and maintaining a regulatory environment to maximize its opportunities for success require contributions from many parts of the government. To be most effective, these different parts should share a similar vision and be able to design and coordinate policies and regulations accordingly. In some cases, such as with the City of Windhoek or TransNamib this might mean providing the right incentives for them to conduct themselves in accordance with overall government goals. In other cases, as with the Ministry of Labour, it might also require serious discussions about the effectiveness of government assistance with recruitment and training. The central government needs to be aware of and responsive to the concerns of these bodies in responding to government wishes. While a certain amount of friction is inevitable and actually quite healthy, there need to be processes to resolve conflicts and disagreements that result in mixed messages to investors and that hinder the effectiveness of policies aimed not only at improving the business environment

and increasing the attractiveness of the country to investors, but also at achieving the country's broader economic development goals.

### 8.5 Logistics

Logistics are critical to the success of any investment and especially one geared to a global market tied to rapidly changing buyer preferences.

Direct sea freight between buyer and seller is by far the most cost-efficient. But Namibia's location and the small volumes of international cargo that it attracts make scheduling problematic, and this is a major concern for the garment industry. Transhipment by feeder vessels through Cape Town is second best, but can also face scheduling problems and might not be fast enough. Road freight to Cape Town can be speedy but is the final resort because of higher costs.

Either of the transhipment options depends on smooth customs operations in Cape Town, and the land route involves a border crossing with South Africa as well. In a well-functioning customs union this should not raise any issues at all, but recent experience shows this is not necessarily the case in SACU. This, together with occasional customs problems on the docks at Cape Town, increases the risks facing buyers, and raises freight forwarding and customs clearance costs, all of which are reflected in the net cost to buyers of dealing with Ramatex Namibia.

### 8.6 Managing Perceptions

Because of its size and because of the particular domestic political circumstances at the time the factory started up, Ramatex attracted enormous public interest in Namibia and it became a lightning rod for manifestations of differences over a variety of policy issues, and most especially about overall strategies for economic development. Both the government and the firm had a difficult task in dealing with these conflicts and in presenting information or a vision that would gather public support.

The firm was wooed heavily by the government to come to Namibia. As a result it might well have expected to be treated with respect and even gratitude by the local community, and especially labour, to which it brought the promise of many thousands of jobs. It might also have seemed reasonable to expect the government to act as its champion, thus reducing the need to engage in significant public and community relations activities on its own.

These expectations did not all turn out to be correct, and the company did not do a very good job of adjusting to the reality on the ground. It relied on the MTI to do most of its bidding and came across very belligerently when acting on its own.

As the lead ministry in promoting and managing the Ramatex investment on behalf of the government, the MTI's job was not easy. It had to achieve a balance between genuinely responding to Ramatex' needs in making the project a success and becoming or appearing to be beholden to and a captive of the company, and neglecting the overall public interest. Its job was not made easier by differences with other ministries or agencies.

Perceptions management issues were not the exclusive concerns of the government and the company. As described earlier, the local union, NAFAU, played a very dangerous game in working with the international union, ITGLWF, in threatening to have Ramatex blacklisted by US buyers. It is understandable for the union to emphasize and take full advantage of allegations of exploitation of workers in order to build its strength in its core constituency. But a more subtle understanding of their shared interest with the buyers in promoting good labour practices might have achieved many of the same goals at much lower cost.

## 9 Conclusion

The Ramatex investment in Namibia in 2001/02 was huge and it was important. It offered the prospect of well over 10,000 jobs and the development of a new manufacturing export

base in textiles and garments, with potential knock-on effects for many other sectors through supplier linkages, labour force training and the development of transport networks.

Ramatex' principal reason to invest in southern Africa was to take advantage of the U.S. Africa Growth and Opportunities Act (AGOA), which offers duty and quota free access to the U.S. market. The reason it chose Namibia was a very generous package of incentives contained in a pre-existing EPZ program that was enhanced with concessionary transport and utility provisions and the government's assumption of major costs in respect of water supply and wastewater management. The government went to great lengths to be "business friendly."

Conflicts among key stakeholders troubled the project almost from the beginning. Issues have included environmental impacts, labour relations, transport services and fulfilment of government commitments on incentives, especially in connection with training of new workers. Several of the company's major buyers withdrew from Namibia in the early years of the project. Productivity has been lower than expected and unit labour costs higher. Difficulties in meeting production deadlines and in achieving planned shipping volumes have combined with other logistical problems to raise shipping costs and further reduce competitiveness.

Ramatex has never come close to meeting its production, sales or employment targets. It has lost money in every year since it opened. It scaled back production and employment in January 2005 by closing one of its three garment factories. Rhino Garments, a related company operating under separate management on an adjacent site shut down a few months later. The Ramatex spinning and weaving operations, which had been operating at considerably less than existing or planned capacity, were closed in August 2007.

The purpose of this study has been to examine the Ramatex Namibia experience for lessons about the investment climate. It confirms that trade preferences and investment incentives are important in shaping investment decisions. However, the ultimate success of these investments depends on a far wider range of factors, involving government at different levels, strategic decisions of the firms themselves, and the behaviour and interactions of a wide range of stakeholders.

Ramatex' commercial difficulties arose for a combination of reasons, many of which are not necessary or inevitable. The Ramatex investment was novel and unique for Namibia and to a large extent for Ramatex, as it involved production in an environment very different from those with which it was familiar. It has been a learning experience for all stakeholders, and there is little doubt that, in hindsight, many things could have been done differently and better.

For the government maybe the most important lesson is that attracting investment involves far more than doling out incentives. It is a much larger job of creating a business environment in which unnecessary regulatory costs and processes are minimized, and important social, economic and environmental concerns are managed efficiently and effectively.

**References**

Endresen, Sylvi B. and Ann Cecilie Bergene 2006 "Labour Standards and the Question of Industrialization Strategy" in Jauch andd Traub-Merz 2006

Flatters, Frank 2007 "Rules of Origin, Commercial Availability and Trade Preferences: Denim and AGOA" USAID funded report prepared for the Southern Africa Global Competitiveness Hub, Gaborone, Botawana

Jauch, Herbert and Rudolf Traub-Merz eds. 2006 *The Future of the Textile and Clothing Industry in Sub-Saharan Africa* Bonn: Friedrich-Ebert-Stiftung 2006

Jauch, Herbert 2006 "Africa's Clothing and Textile Industry: The Case of Ramatex in Namibia" in Jauch and Traub-Merz 2006