Ensuring Growth and Opportunity:

Strengthening Job Creation for AGOA

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The Africa Growth and Opportunity Act (AGOA) benefits the U.S. and Africa by providing free market access, encouraging investment opportunities, and, for Africa, providing opportunities to facilitate job creation and poverty reduction. Although statistics show that oil-related products account for more than 90 percent of exports from Africa, non-oil exports increased by 230 percent between 2000 and 2008 alone. This increase has been followed by investment in new and non-traditional export sectors, which are in turn seeing the growth of export-processing zones and new factories across Africa focused most notably in textile and apparel industries. If the participating African countries incentivize the use of local employment while enforcing better labor standards, AGOA has the potential to use these investments to vastly scale up African job creation.

To date, the employment gains from AGOA have been constrained for several reasons, but especially because of limitations faced by labor markets in Africa. First, Africa ranks as one of the most difficult regions of the world for hiring workers, and half of the 10 most difficult countries for employing laborers are in Sub-Saharan Africa.[1] High production costs are also a major issue, as illustrated by a 2008 report by the United Nations Conference on Trade and Development. The report looks at a case study of Kenyan and Bangladeshi garment manufacturers, and shows that a critical barrier to the competitiveness of garments made in Kenya is the cost of production, which is three times higher than costs faced in Bangladesh. Furthermore, of these high production costs, the largest determinants are high wage costs, which are 138 percent higher in Kenya than in Bangladesh.[2] The problem of high wage demand is widespread throughout many African countries, and is often due to factors such as the high cost of transportation faced by laborers.

The problems of high production costs and wages are compounded by the problem of skills mismatch, an issue that arises when available workers lack the technical skills demanded by new companies. These uncomplementary employment problems must be addressed to ensure that new firms in Africa hire from the local population and are not motivated to import labor from elsewhere.

A well-publicized recommendation for improving local employment under AGOA is the idea of inserting a clause in the legislation requiring that a certain fraction of labor employed in AGOA factories or related investment projects consists of African nationals. Considering that investors are private companies, such a provision will encounter immediate problems in places where there is a skills mismatch or labor costs are higher than employers' willingness to pay. Such a clause would ultimately result in decreased incentives for investment in the country. Finding the precarious balance between attracting foreign investment and incentivizing the use of local labor must be a goal for African governments to fully maximize the benefits of AGOA.

It is a welcome development that both U.S. policymakers and African countries are beginning to pay close attention to the employment component of the range of AGOA benefits. The African Union ministers of trade remarked at the fall 2010 AU–AGOA conference that any discussion of AGOA should prioritize ensuring job creation and poverty reduction resulting from investments related to AGOA.[3] In furthering this discussion, it is imperative that each country considers necessary changes to ensure that AGOA-motivated investments, factories and projects translate into increases in local employment. Ultimately, it is up to individual African governments, and not the AGOA legislation itself, to develop policies that ensure both private firms and local laborers benefit from the increased investment.

African governments must work to lower some of the constraints faced by businesses with regard to labor. Increasing access to necessary vocational training will be an obvious priority for African governments, while incentivizing private firms to do so as well. In addition, providing new businesses with incentives to locate in low-wage areas must be a priority. Some of the high wage costs result from high costs of transport for workers, therefore facilitating export-processing zones where new investors have access to low-wage workers and lower production costs could motivate additional investment and, in turn, job creation. EPZs should, of course, also provide improved infrastructure, as well as more direct access to ports, airports and tax incentives, like temporary tax exemptions for investors or the duty-free importation of materials needed for production in order to further incentivize investment through lower production costs. It must be noted that as governments work to attract investment, they should also work to enforce existing labor standards. Workers' rights should not be sacrificed as a part of any strategy for scaling up foreign interest. Many EPZs operate under flexible labor laws where workers' rights are bypassed, but this approach should not be encouraged by African governments. The AGOA legislation states that its beneficiaries must implement "acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health."[4] Thus, private investors and, more important, local governments should be expected to abide by and enforce such standards with AGOA-related firms and in general practice. Recent news headlines about ill treatment of workers in Zambia by foreign firms have only been exacerbated by the reaction of local government, which has done little to punish or rebuke exploitation and seems to imply that domestic employers can be similarly culpable.[5] Sacrificing the treatment of local workers for the sake of attracting foreign investors has not and will not benefit any side involved in the long term.

Job creation has the potential to expand profoundly in the attractive investment environment that AGOA has created for African countries. Addressing the labor market constraints outlined above will ensure that the greatest possible gains are realized from AGOA with respect to Africa's employment needs.

Endnotes

1 Rankings are according to International Finance Corporation, *Doing Business 2010 Reforming through Difficult Times* (Washington: International Finance Corporation, 2010), http://doingbusiness.org/reports/doing-business/doing-business-2010.

2 United Nations Conference on Trade and Development, *Economic Development in Africa: Export Performance Following Trade Liberalization: Some Patterns and Policy Perspectives* (Geneva: United Nations Conference on Trade and Development, 2008), www.unctad.org/en/docs/aldcafrica2008_en.pdf.

3 African Union Ministers of Trade Conference, November 2010, http://www.au.int/en/dp/ti/content/au-conference-ministers-trade-6th-ordinary-session-0.

4 African Growth and Opportunity Act, Title I, Trade and Development Act of 2000, PL 106–200.

5 "Zambia Uneasily Balances Chinese Investment and Workers' Resentment," *New York Times*, November 20, 2010.