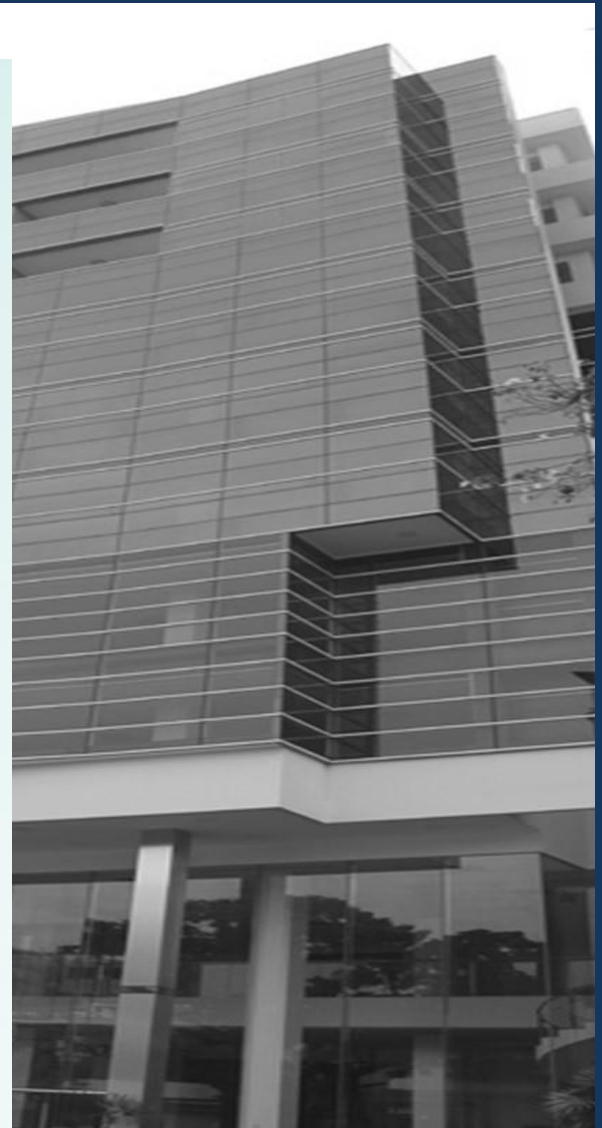




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**IMPACT OF THE AFRICAN CONTINENTAL FREE  
TRADE AREA (AFCFTA) TO THE TRADE  
BETWEEN SRI LANKA AND AFRICA**

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## Impact of the African Continental Free Trade Area (AfCFTA) to the Trade between Sri Lanka and Africa

### Introduction

The African Continental Free Trade Area (AfCFTA) agreement created the largest free trade area in the world measured by the number of countries participating. [The pact connects 1.3 billion people across 55 countries](#) with a combined gross domestic [product valued at US\\$3.4 trillion](#). The agreement will reduce tariffs among member countries and cover policy areas such as trade facilitation and services, as well as regulatory measures such as sanitary standards and technical barriers to trade. Full implementation of AfCFTA would reshape markets and economies across the region and boost output in the services, manufacturing and natural resources sectors.

The African Continental Free Trade Area (AfCFTA) was conceptualized in 2012 to enhance trade integration on the continent. The Agreement establishing [AfCFTA came into force on 30 May 2019](#) and, so far, 30 countries on the continent have ratified the Agreement.

As proposed, the new free trade area will enhance the intra-continent trade among the members as well as the exports of the African continent to the world. [Currently most of the natural resources of the continent are excavated by the American, European and Asian multinationals](#) while the rest of the resources are underutilized due to many political, economic and other reasons. Thus, the people in the continent could not join the global value chain, and as a result, their average living standards are always below the global averages in last few decades.

### Africa's Trade with the World

(Values in USD Bn)

Region	Imports 2021	Exports 2021
Asia	261.4	182.6
Europe	194.2	200.1
USA	52.1	46.1
China	115.8	78.0
BRICS (Except South Africa)	170.8	112.7

Source: Trade Map

According to the above statistics the volume of international trade of the African continent is relatively lower than the other parts of the world. Unlike Asia, Europe, and North America, Africa does not have an economy that acts as a trading hub. South Africa operates, somewhat, as a hub for the Southern Africa, for which it is also a key supplier of intermediate goods. [South Africa is a top-five trading partner for 14 African countries](#). At the same time, it is integrated, mostly upstream (forward integration), in global value chains with China, the United States, Germany, and India. The rest of Africa lacks a systemic global exporter that also imports value added from the rest of the continent. The development of the supply chains within the continent would provide a bridge for African countries to generate more downstream (backward) integration into global value chains and by doing so get more gains from their participation in international trade.

## Implementation of the Agreement

The agreement is to be implemented in two phases. Phase I, which went into effect at the end of May 2019, provides a framework for the liberalization of trade in goods and services and a mechanism for dispute settlement. Phase II will cover competition policy, investment, and intellectual property rights. [The agreement sets the path for the elimination of tariffs on 90% of tariff lines](#). Countries can implement tariff reductions over a longer period for 7% of tariff lines and maintain existing tariffs for the remaining 3% of tariff lines, provided that the value of trade under these does not exceed 10% of the total trade with Africa. For services, member countries have also agreed to propose liberalization through a request and-offer approach, based on seven identified priority sectors such as : logistics and transport, financial services, tourism, professional services, energy services, construction, and communications.

## Focus of the Agreement

- Boost Africa's income by \$450 billion by 2035 (a gain of 7%) while adding \$76 billion to the income of the rest of the world.
- Increase Africa's exports by \$560 billion, mostly in manufacturing.
- Get larger wage gains for women (10.5%) than for men (9.9%).
- Boost wages for both skilled and unskilled workers—10.3% for unskilled workers, and 9.8% for skilled workers.
- [Enhancing the trade facilitation measures](#) to reduce red tape, simplify customs procedures, and make it easier for African businesses to integrate into global supply chains—would boost the income gains by \$292 billion.
- Creating a continent-wide market will require a firm effort to reduce all trade costs. In general, this will require legislation and regulations to enable the free flow of goods, capital and information across borders; create competitive business environments that can boost productivity and investment; and promote increased foreign competition and foreign direct investment that can raise productivity and innovation by domestic firms.

## Opportunities and Challenges for Existing Trade

1. The AfCFTA would have a strong impact on intra-African trade. The FTA expect an intra-African [trade growth of more than 80%.](#), which represents an increase of about US\$60 billion in African exports. Thus the competition for the market access will be higher in future.
2. Capital–skilled labor complementarity may also cause positive changes in the human skill premium. If capital and skilled labor are complementary in the production of goods, this would raise the productivity and wages of skilled labor in the continent.
3. [Improving the trade facilitation throughout the continent](#) - African countries will take the steps to achieve this, including making sure that all customs locations have information technology systems that support core processes and are adequately used by traders and officials
4. The AfCFTA [reduces trade uncertainty within and among African countries](#). It is an essential factor to unlocking private sector dynamism to expand existing and start new businesses to take advantage of the agreement while enhancing the market access.
5. This will [attract more FDIs](#) to the continent seeking the internal consumer, labour and natural resource markets.


## Sri Lanka needs to join the African Value Chain

With these new developments of the African nations the traditional commodity trading between the countries may not give the fullest advantage for both producer and consumer. **The level of integration to the value chain will decide the particular share of profit the trade in future.** Also, the consumer may achieve a better level of utility by the changing consumption patterns. Thus, Sri Lanka needs to seek the new strategies to capitalize this newly created trade bloc among the African nations.

1. **Ceylon Tea market in Africa will be diverted** into the African grown teas in Kenya, Zimbabwe, Tanzania and Malawi. Thus the traditional tea planters need come to the African lands to utilize their expertise in plantation.
2. Currently Sri Lankan energy companies have marked their footprint in Africa successfully. The **sustainable energy sector** is widely addressed by almost all the countries while emphasizing the necessity of facilitating the most remote corners of the countries which are naturally disadvantageous of the development programmes. Mini hydropower, wind and solar have been identified as the best suited solutions to the remote areas.
3. Number of people with high disposable income is gradually increasing in the African continent. Thus it will create more opportunities to attract **more tourists from Africa.**
4. The average rate of literacy, life expectancy and other key social indicators are gradually increasing in this continent. Then this region will be the **next best labour market after the Asia.** Labour intensive industries may have an opportunity to seek the low-cost sources in Africa
5. To support the rapid economic growth, the demand for the development of infrastructure will increase. Thus new **construction project opportunities will be available** in this region specially for developing the road/ rail networks, power distribution and telecommunication.

Acknowledgment of Content Contribution:

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