The Economic Partnership Agreements (EPAs), services liberalisation and trade in goods: Examining the missing link

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Given the important role of services as intermediate inputs in the production in most industries, an inefficient services sector can be costly for the economy as a whole. For example, even if a country were to reduce goods tariffs, distortions would continue to persist should services barriers remain unchanged. In the context of the negotiations on Economic Partnership Agreements (EPAs) between the EU and the African, Caribbean and Pacific (ACP) countries, this study represents a first attempt to undertake a comprehensive, quantitative cross-country analysis of how manufacturing and services sectors interact in the production process in selected African economies. On this basis, the extent to which this interaction and thus ultimately goods trade itself would be affected by services liberalisation under the EPAs is looked into.

Firstly, the study examines the structure of production in 15 African countries using the recently published GTAP input-output tables. It analyses industries' economic interdependence (magnitude of transactions between industries or backward and forward linkages) and the industry interconnectedness (the number of industry sales or purchases measured as concentration and entropy) and documents the contribution of services to the various industries' costs to determine how services activities relate to the composition and volume of goods trade. This provides a picture of which manufacturing sectors use services relatively more intensively and thus have the potential to be affected to a greater extent by services liberalisation (and a consequent increase in the supply of efficient services). Also, in order to better understand the fragmentation process in Africa, the paper combines clustering techniques with inter-industry and intra-industry indicators to explore the geographic system of linkages.

Secondly, the paper analyses the impact of services liberalisation (through reductions in costs and productivity gains from expanding product variety) on the level and composition of trade in goods under different assumptions on the elasticity of substitution of services inputs.