

BRICS AND THE GLOBAL ECONOMY: INTERNATIONAL TRADE IN SERVICES IN FOCUS

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1 INTRODUCTION

Covering groups of companies that provide basic economic, financial and social infrastructure and support corporate businesses, the services sector has become more and more important for generating income and employment in various countries. As Marchetti (2004) and Dihel, Eschenbach and Shepherd (2006) have analyzed, an increase in the share of services in the Gross Domestic Products (GDP) of countries is seen as the income of those economies grows. Also, the higher the income of a nation, the greater share of international trade in services it has.² Furthermore, technological transformations have favored expansion of trade in services, once seen as untradeables or difficult to export, such as education, accounting, healthcare, publishing, research and development, legal and business services. Herewith, as highlighted by Lopez, Niembro and Ramos (2011), international trade in services has been growing at high rates in the last decade and continues to maintain strong growth potential in the coming years.

The United States and the European Union (EU) are the largest services exporters in the world, jointly accounting for 55% of the total trade in commercial services in 2010, according to data from the United Nations Conference on Trade and Development (UNCTAD) which considers intra-European trade. Even though the international services trade flows remain relatively concentrated, in the past few years an expressive growth in the market share of emerging economies has been observed, particularly those of the BRICS (Brazil, Russia, India, China, and South Africa). According to the data presented by the Organization for Economic Cooperation and Development (OECD, 2010), the average annual growth in services exports between 2003 and 2008 was 13.3% for OECD countries and 26.1% for the BRICS, what indicates an increase in the relative importance of these countries in international trade in services. Developed countries lost market share in total services exports in the last decade, from 75.7% in 2000 to 67.7% in 2010, while developing countries increased their share from 22.8% in 2000 to 26.2% in 2010³.

Taking this context into account, this paper aims to analyze the integration of the BRICS' countries in the international services market. In order to do so, I exam some

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² I consider here the concept of commercial services, which includes all categories of services, except government services. The categories are: Transportation; Travel; Communications; Construction; Insurance; Financial Services; Computer and information services; Royalties and Licenses; Other Business Services; Personal, Cultural, and Recreational Services. These 10 categories contain 160 subsections. See methodology at UNCTAD: <http://unctadstat.unctad.org/> or at WTO: <http://stat.wto.org>.

³There is also the group of transition economies.

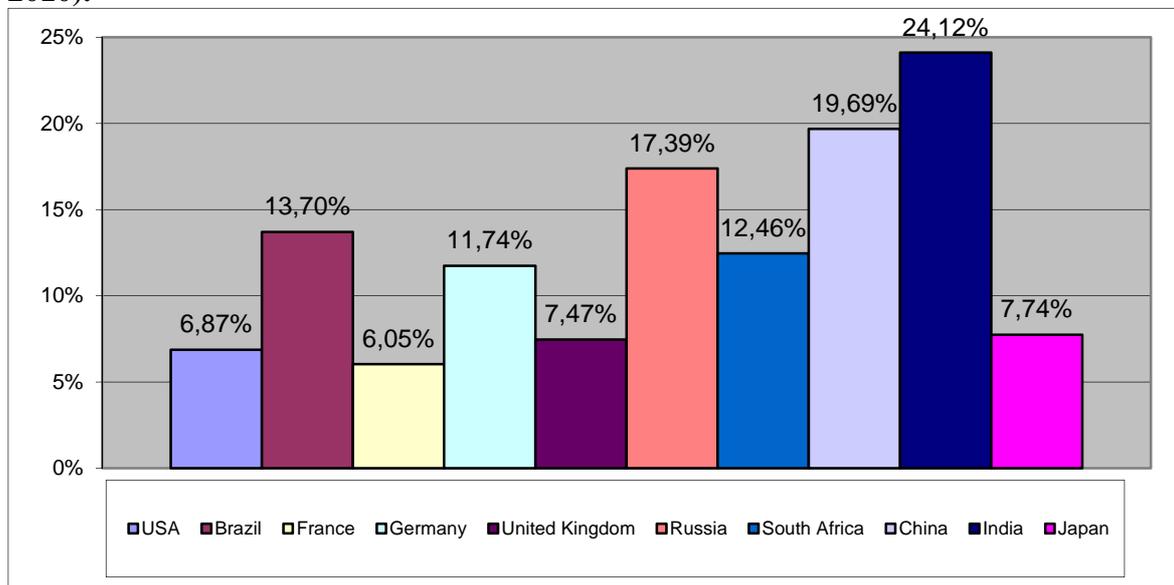
indicators and secondary data on trade in services, based on the existing literature on the topic. Also, the participation of the BRICS is evaluated in the new dynamic sectors (NDS)⁴ of trade in services. I use the data available in bases such as the World Trade Organization (WTO), World Bank (WB), International Monetary Fund (IMF), OECD and UNCTAD ones.

Besides this brief introduction, this paper contains three sections. In section 2, the participation of the BRICS in the international services market is analyzed and compared, highlighting characteristics of competition and complementarity among them on this issue. In section 3, I exam the BRICS' roles in international trade of NDS. Finally, in section 4, some concluding remarks are presented.

2 BRICS IN INTERNATIONAL TRADE IN SERVICES

The relative dispersion observed in international trade in goods, with the increase developing countries' market share, particularly the BRICS, is also identified when one analyzes trade in services. The United States, the world's largest exporter of services, with total value of exports exceeding US\$ 518 billion in 2010, has had lower export growth rates than the global average since 2001. The average growth of U.S. exports from 2001 to 2010 was 6.87%, as seen in Chart 1, while global exports grew at 10% on average in the same period, according to the WTO (2011).

Chart 1: Average growth rate of services exports for selected countries - % (2001-2010).

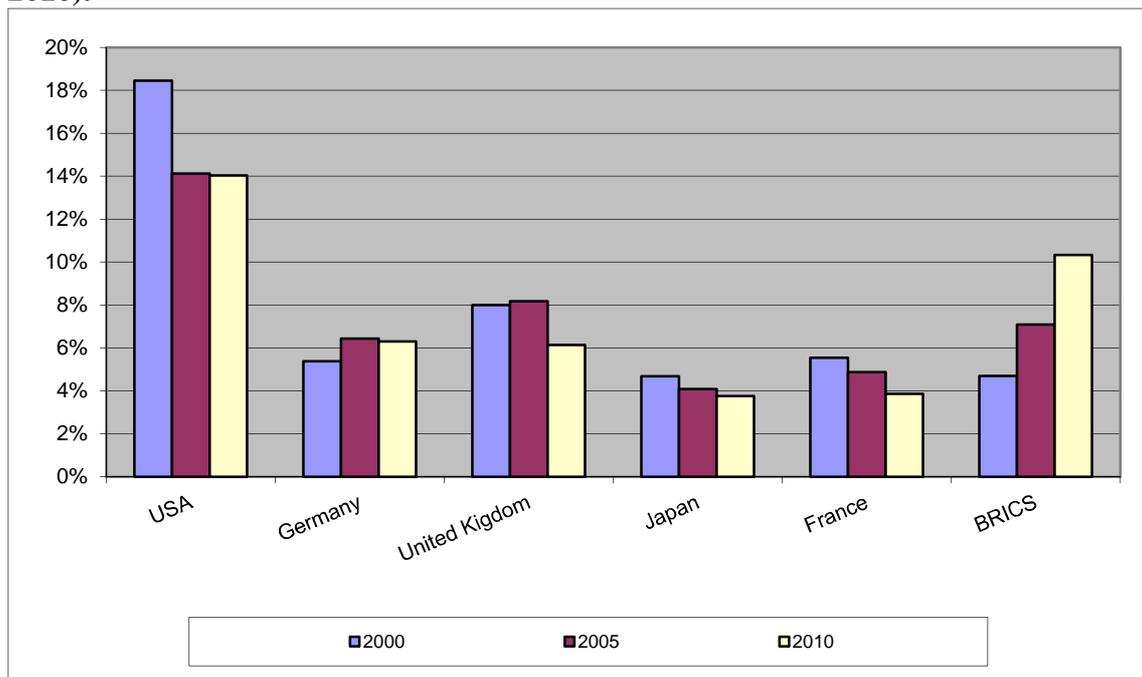


Source: WTO.

⁴This concept includes: Construction, Computer and information services, Royalties and Licenses, and Personal, Cultural, and Recreational Services. These are the sectors with the highest growth rates in international trade as well as the greatest potential for growth in demand. See OECD (2010).

As presented in Chart 1, not only the United States' exports grew below the world average between 2001 and 2010, but France, Japan and the United Kingdom, renowned global exporters of services, also had growth rates smaller than the world average. Germany, being the exception among developed countries, achieved average growth of 11.74% in its services exports in the same period, what can be seen as an impressive rate given the high base of its total exports (German services exports in 2010 reached US\$ 232 billion).

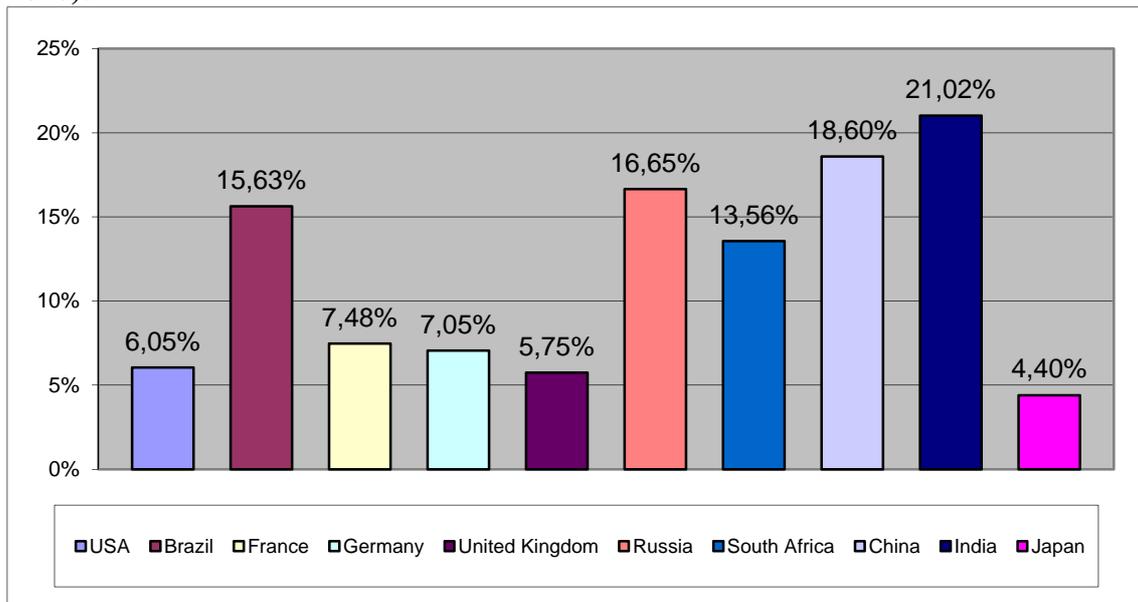
Chart 2: Share of selected countries in world services exports - % (2000, 2005, 2010).



Source: WTO.

The rapid growth of global trade in services in the last decade relied a lot on emerging economies, the BRICS in particular. With average growth of their exports around 17.5% between 2001 and 2010, the BRICS have more than doubled their participation in international trade in services during that period. In 2010, they represented over 10% of world services exports, as illustrated in Chart 2. It is worth noting, however, that there are major disparities in growth rates of services exports among the BRICS, with India leading the exports growth in the group, with a rate of 24.12% between 2001 and 2010, followed by China, Russia, Brazil and South Africa. The latter presented higher growth rate than the world average, but that rate represents almost half of the one observed for Indian exports in the same period. Thus, the asymmetries observed among the BRICS are clearly reflected in their integration into international trade in services.

Chart 3: Average growth rate of services imports for selected countries - % (2001-2010).

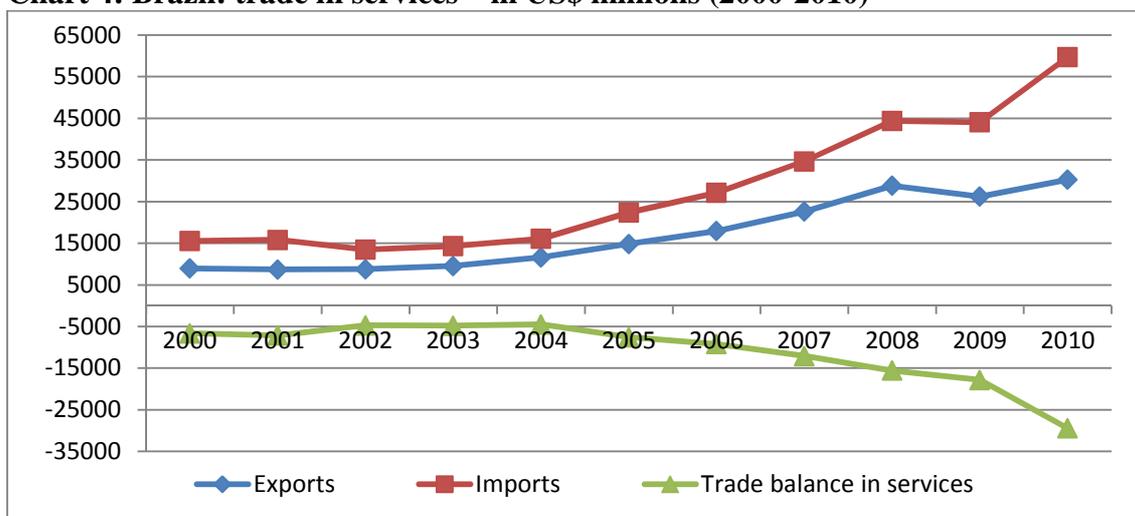


Source: WTO.

As far as the growth of services imports is concerned, the BRICS' countries also stand out, because they had growth rates that are well above the global average between 2001 and 2010. During this period, global imports increased at an average rate of 9.6%, whereas the average growth rate for the BRICS was 17.1%. With rapid growth, above the global average, for services imports, the BRICS increased their share in world services imports flows from 6.7% in 2000 to 13% in 2010. As shown in Chart 3, the traditional importers of services (the United States, Germany, Japan, the United Kingdom and France) also increased their purchases in the 2000's at relatively high rates, although lower than the world average, which was driven particularly by the impressive growth of imports from emerging economies.

2.1 Brazil

The openness of Brazilian economy to trade in services has widened since the mid-1990s, progressing from a relation between total trade in services and GDP of 2.8% in 1994 to 4.8% in 2002 and 4.5% in 2010. Brazilian services exports accounted for approximately 13% of its total exports of goods and services in 2010, what indicates that the countries' exports are well concentrated in goods and there is significant potential growth for trade in services. Also, Brazilian participation in the international services market is historically characterized by a deficit in its trade in services balance, as seen in Chart 4.

Chart 4: Brazil: trade in services – in US\$ millions (2000-2010)

Source: WTO.

Although its exports have grown at an average rate of 13.7% from 2001 to 2010, with absolute values that went from US\$ 9 billion in 2000 to US\$ 30.3 billion in 2010, its imports grew even more than its exports in this period with an average rate of 15.6% a year. Brazilian imports were worth US\$ 15.6 billion in 2000 and US\$ 59.7 billion in 2010, what explains its trade deficit in services reaching US\$ 29.5 billion in 2010, a figure 4.5 times higher than the deficit verified in 2000. Despite the growth of both exports and imports of services in Brazil in the last decade, its share of international trade in services remained relatively marginal, with 0.82% of world exports (31st in the global ranking in 2010) and 1.7% of world imports (17th in the global ranking).

By analyzing the services exports basket of Brazil one can see that its composition is concentrated in other business services, which represented 52.08% of total exports in 2010. Brazilian services imports present a greater share for travel and other business services, followed by transport and computer and information services. Taking into account the average annual growth between 2002 and 2010, the main sectors were: communications, with a growth rate of 39%; travel, with 23%; and other business services, with 21%.

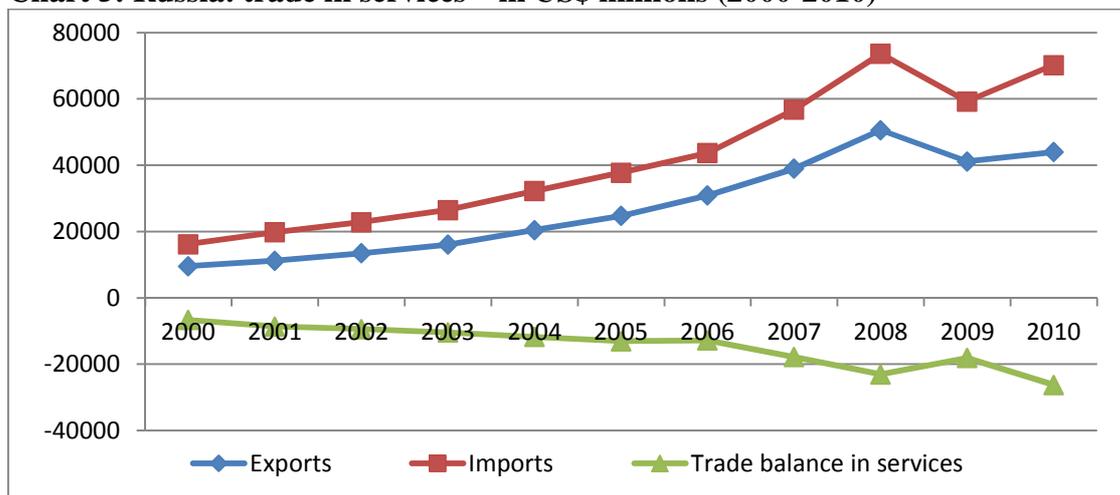
2.2 Russia

Russia's economy is more open to trade in services than some emerging countries, like Brazil, with its trade flows representing about 8% of the GDP in 2010 (in 1994 it was 6% and, in 2000, 10%). Moreover, trade in services accounted for approximately 10% of Russian total trade in goods and services in 2010.

In absolute terms, services exports from Russia expanded from US\$ 9.6 billion in 2000 to US\$ 43.8 billion in 2010 (23rd in the global ranking), with average growth for the period of 17.4% a year, well above the world average of 10%. This factor has increased

the relative participation of the country's world exports of services from 0.64% in 2000 to 1.2% in 2010. Imports, meanwhile, went from about US\$ 16 billion in 2000 to US\$ 71.5 billion in 2010 (16th in the global ranking) and increased at an average annual rate of 16.6% in the same period, a rate that is also greater than the 9.6% average growth in Russian services imports, increasing the country's share in world services imports from 1.1% in 2000 to 2% in 2010.

Chart 5: Russia: trade in services – in US\$ millions (2000-2010)



Source: WTO.

Transport, travel and other business services represented around 82% of Russian services exports in 2010, a share which is well above the world average for those sectors. Financial services exports grew at a significant rate, 30.61%, between 2002 and 2010, but represented only 2.4% of Russia's total exports in 2010. The construction sector has a relatively high share of the country's services export basket, approximately 6% in 2010, if compared to the world average and particularly to emerging countries such as Brazil.

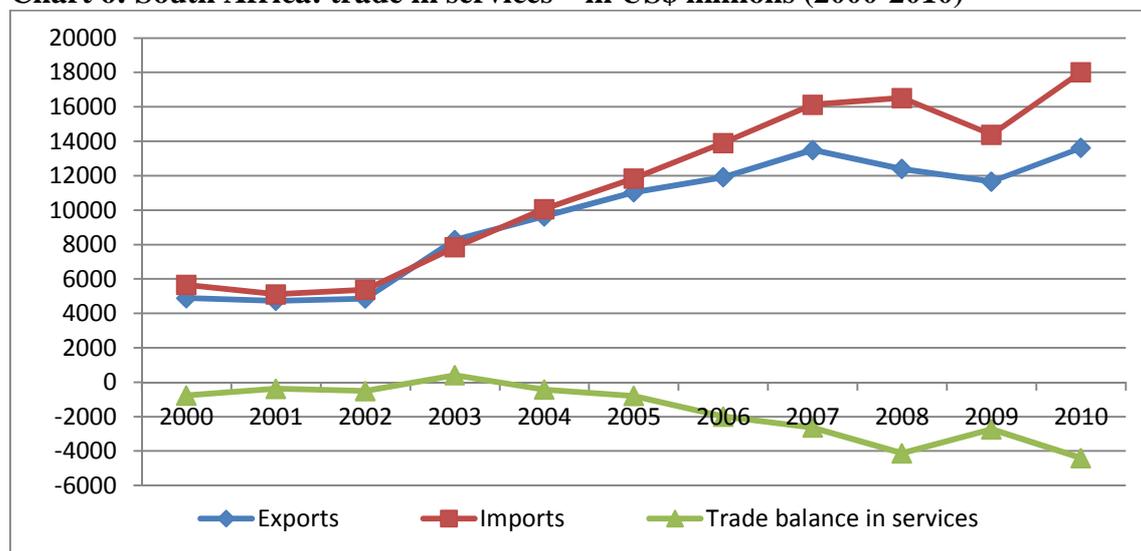
As for Russian services imports basket, travel represented 37.1% of its imports in 2010, followed by other business services, 21%, and transport, with a share of approximately 17% of Russian imports that year. From 2002 to 2010, the categories of other business services and royalties and licenses were the fastest growing ones, with average growth of 32% and 39% a year, respectively, although they still have a small share of the total imported services by the country, only 2.4% for other business services and 7.1% for royalties and licenses in 2010.

2.3 South Africa

Among the BRICS, South Africa is one of the countries with the greatest degree of openness to trade in services. South African total trade in services represented approximately 9% of GDP in 2010, only smaller than the Indian share, which was 14% that year. South Africa is also one of the BRICS with the highest number of services subsectors with commitments under the General Agreement on Trade in Services

(GATS) to have reduced protection: 91 subsectors⁵. However, this degree of openness also reflects the relatively small size and limited diversification of South African economy and trade flows. Trade in services represented 13% of the country's total exports of goods and services in 2010, a pattern that can be found in most developing countries, except India.

Chart 6: South Africa: trade in services – in US\$ millions (2000-2010)



Source: WTO.

South African exports of services, which grew by 12.5% on average between 2001 and 2010, rose from US\$ 4.8 billion in 2000 to US\$ 13.6 billion in 2010, representing only 0.37% of total world exports in 2010. In the same year, the basket of exported services was concentrated on travel, with a share of approximately 67%, followed by transport, with 12%, other business services, 8%, and financial services, representing 6% of all services exports of South Africa in 2010.

Total services imports were worth US\$ 18 billion in 2010, a figure three times higher than the one observed in 2000, which represents 0.51% of world imports of services that year (40th in the global ranking). It is important to note that South African imports basket is dominated by transport and travel categories, which represented 70% of total imports in 2010 and grew, on average, 16% and 14.5% annually between 2002 and 2010, respectively.

The average annual growth of South African services imports was 13.6% in the last decade. With its imports growing at higher rates than its exports between 2000 and 2010, there was an increase in the country's trade deficit in services, which reached \$ 4.4 billion in 2010, 5.7 times higher than figure from 2000.

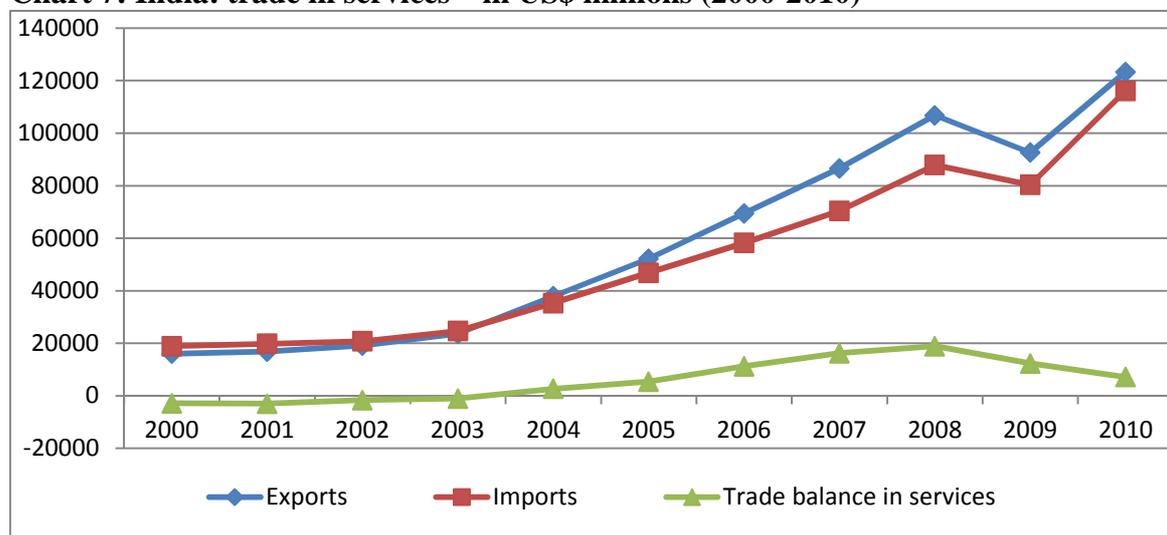
⁵The numbers of services subsectors with commitments to reduce protection by the other BRICS' countries are: 93 for China, 37 for India and 43 for Brazil. Russia has just recently concluded the process to join the WTO.

2.4 India

India stands out among the BRICS as far as the importance of the services sector in the economy and the country's participation in international trade in services are taken into account. In 2010, India exported more than US\$ 123 billion in services, a figure 7.7 fold higher than that of the year 2000, when the country exported US\$ 16 billion. This significant difference is a result of an average annual growth rate exceeding 24% between 2001 and 2010, what increased India's share in world services exports from 1.1% in 2000 to 3.3% in 2010 (7th in the global ranking).

In India, services exports accounted for approximately 36% of the total exports of goods and services in 2010. Its exports basket is characterized by a strong performance of computer and information services, representing up to 46% of its total exports in 2010, followed by other business services, with 23.5%, travel, with 11.5%, and transport, with a share of 10.7% of total Indian exports of services that year. This exports basket structure reflects the important role the country has played one of the world leaders in computing and information technology sectors. India is the only country among the BRICS to have an important share of world computer and information services exports. It has the largest share among the BRICS' countries of the so-called new dynamic sector (NDS) as percentage of its services exports, 70% in 2010, as will be seen in the next section. India also had the highest growth rate of trade in services between 2001 and 2010 amongst developing nations, with its exports growing more than 24% annually in that period, this figure is twice as big as the world average.

Chart 7: India: trade in services – in US\$ millions (2000-2010)



Source: WTO.

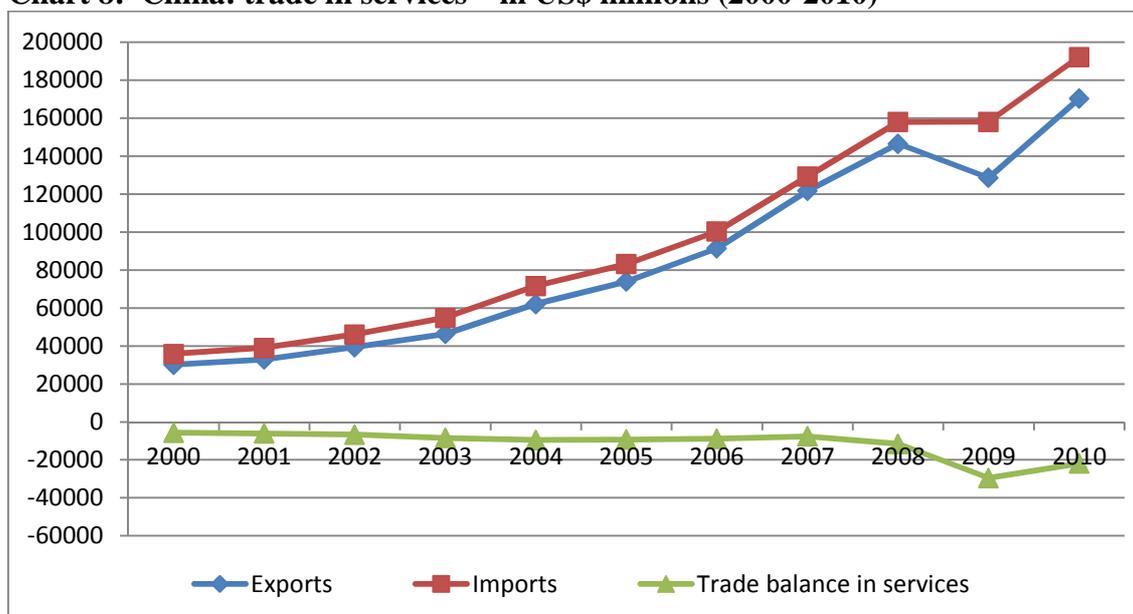
Indian services imports also grew at high rates in the last decade, 21% a year on average between 2001 and 2010, resulting in an increase of its share of world services imports from 1.3% in 2000 to 3.3% in 2010 (7th in the world ranking). In 2010, total services imports by India were worth US\$ 116 billion, what generated a trade surplus of about US\$ 7 billion. 40% of its total imports were in the transport sector in 2010, showing a clear interface with the increase of the country's participation in international trade

activities, and 34% of them in other business services. The categories of travel, financial services and insurance services complete the list of the top five sectors of Indian services imports in 2010, with shares of 9.2%, 5.8% and 4.3%, respectively.

2.5 China

Chinese dragon seems to be awakening to trade in services just as it did in relation to trade in goods. China, the biggest economy among the BRICS, has a relatively lower degree of openness to trade in services than other countries of the group, with a total trade in services as a proportion of GDP of 6.2% in 2010, exceeding only that of Brazil, the closest economy among the BRICS. Services exports from China accounted for 9.5% of its total exports of goods and services in 2010. Its total services exports in that year were 5.65 times greater than the figures in 2000. Its imports values were 5.35 times bigger for the same period of time.

Chart 8: China: trade in services – in US\$ millions (2000-2010)



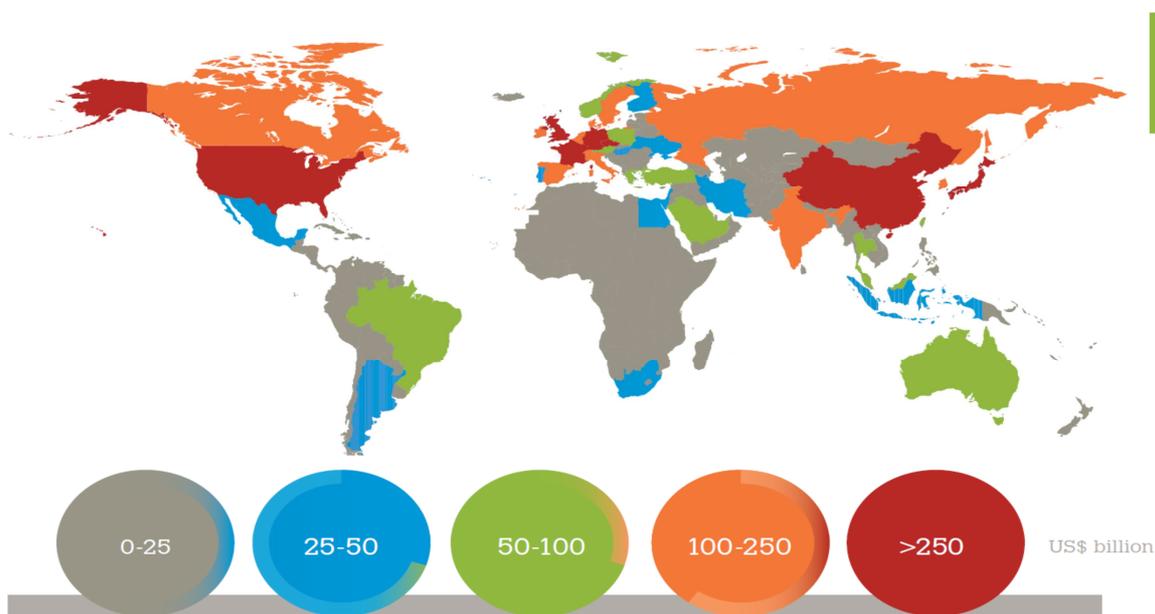
Source: WTO.

Although presenting deficits in trade in services, Chinese services exports and imports grew at rates close to 20% in the last decade. Its exports represented more than 4.6% of world exports (4th in the ranking) and its imports 5.5% of world imports (3rd in the ranking) in 2010, the highest share amid the BRICS' countries.

The rapid Chinese growth in trade in services is concentrated in the categories of other business services, which represented 36% of its total exports in 2010, travel, with a 27% share, and transport, 21% of its exports. It is worth noting that transport services have achieved an outstanding growth in recent years. In 2010, for example, exports from China grew over 45%, the highest growth rate in the world for the sector. Financial services, although representing only 0.8% of Chinese exports, grew 205% in 2010 over the previous year. The country's import basket includes transport, travel and other

business services as those with the greatest share, 33%, 28.5% and 18% of its total imports in 2010, respectively.

MAP 1: Countries' shares in international trade in services – in US\$ billions (2010)



Source: WTO

Economic asymmetries amongst the BRICS, which may hinder common actions in the international arena, are well confirmed by analyzing the data on trade in services. Total Chinese exports of services in 2010 totaled US\$ 170 billion (4th in the world ranking of exporters), this figure is 38% higher than the total services exports from India, 12.5 times higher than South African exports, 5.6 times bigger than Brazilian ones and 3.9 times greater than those of Russia. Nonetheless, the Chinese services exports represented only a third of American ones in 2010⁶. Considering its total exported and imported services, China is the only country of the BRICS to join the select group of countries with more than US\$ 250 billion worth trade in services in 2010. As shown on Map 1, the other countries are traditional services traders and developed ones, such as the United States, Germany, the United Kingdom, Japan and France. So, China is quickly gaining ground in international trade in various services sectors, also being the only country of the BRICS to appear in the *ranking* of the top ten services importers and exporters in all categories examined, except financial services, *royalties* and licensing, and personal, cultural, and recreational services.

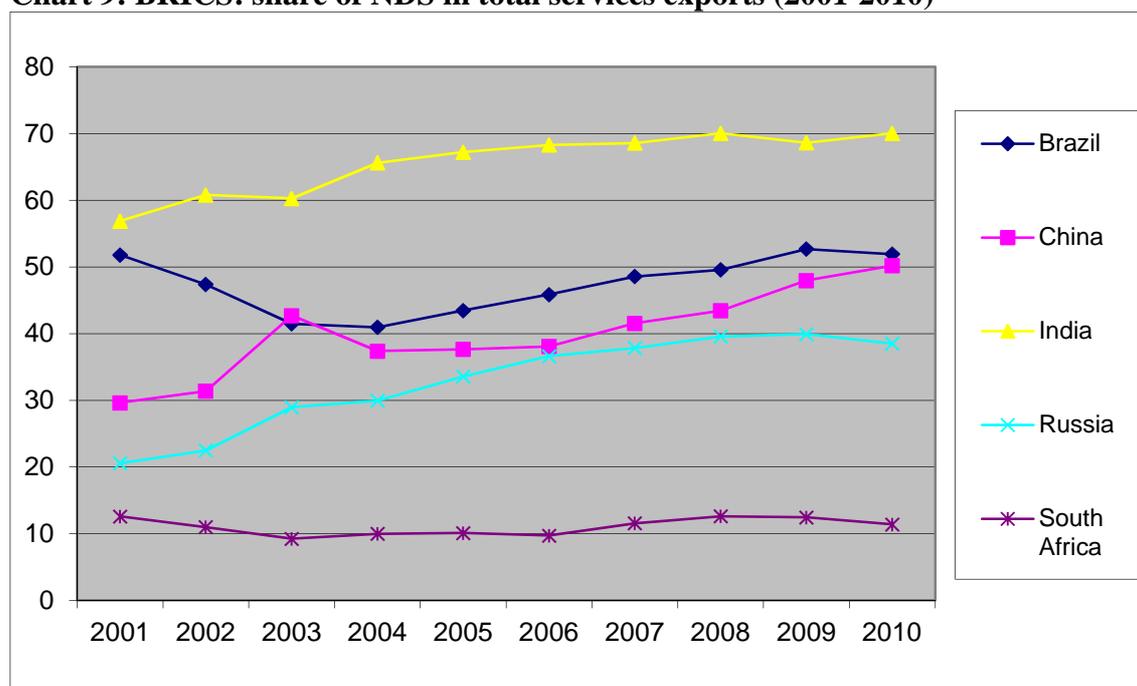
⁶ By adding the services exports from Hong Kong to those of China, one gets a figure of US\$ 276 billion in 2010, which represents 53% of American exports and 7.5% of global trade in services that year.

3 BRICS AND THE NEW DYNAMIC SECTORS OF TRADE IN SERVICES

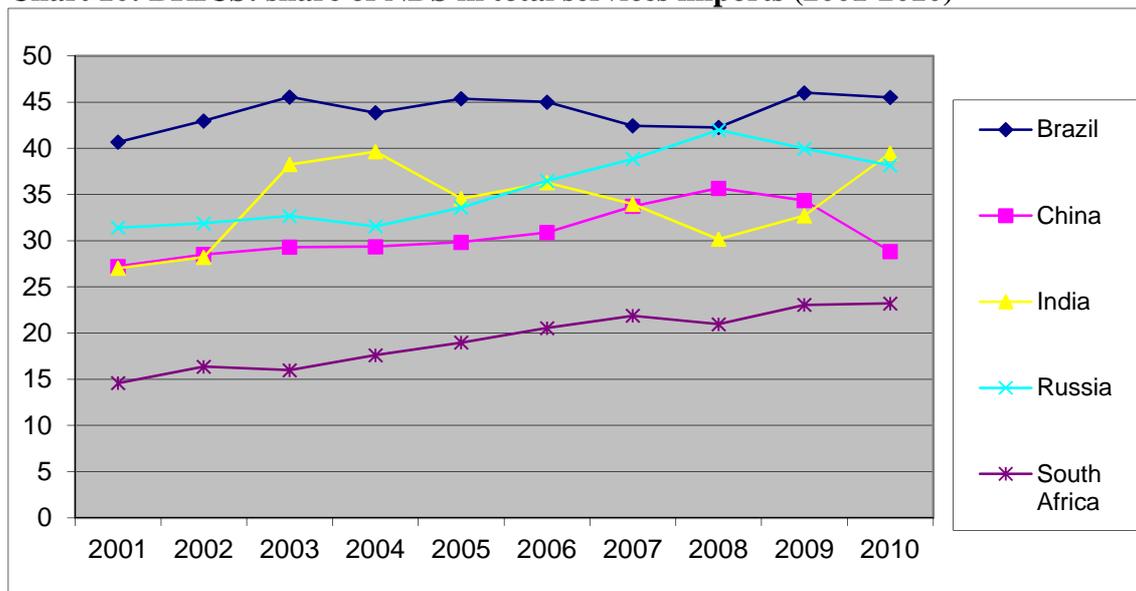
The new dynamic sectors (NDS) of trade in services increased their share in total Chinese services exports, from 30% in 2001 to 50% in 2010. There was also a small reduction in the share of these sectors in total Chinese imports in the period, as one can see in Charts 9 and 10.

In Brazil, the NDS increased their share in total trade in services particularly since 2004. This phenomenon has occurred more intensively in its exports than in its imports. In 2004, the NDS represented 41% of total exports and 44% of imports. In 2010, in turn, the NDS represented 52% of Brazilian services exports and 45.5% of its imports. These data indicate a shift in Brazilian exports towards sectors with higher growth in international trade, which tends to amplify the potential for increasing the country's exports more than its imports in the mid and long terms. However, absolute values of Brazilian trade continue to show trade deficits in the NDS as well.

Chart 9: BRICS: share of NDS in total services exports (2001-2010)

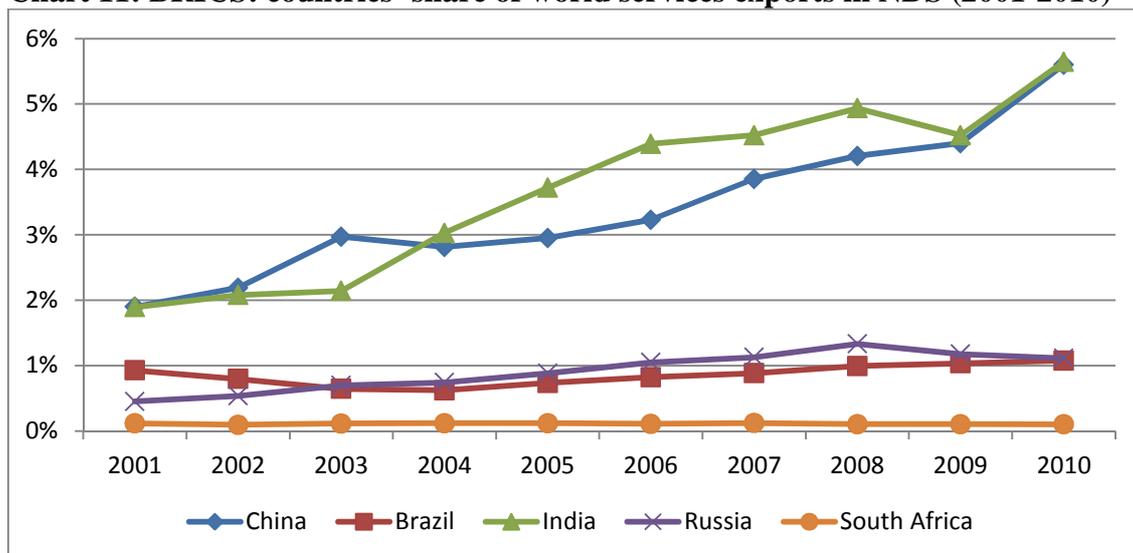


Source: UNCTADStat.

Chart 10: BRICS: share of NDS in total services imports (2001-2010)

Source: UNCTADStat.

Russia widened its trade deficit in NDS in the past decade, what was accompanied by an increase in the share of these sectors in its total exports as well as imports. In 2000, the NDS represented 20.6% of Russian services exports and 31.4% of its imports. In 2010, these sectors accounted for 38.5% of its exports and 38.2% of its imports. In turn, South Africa has broadened the participation of NDS in its services imports between 2000 and 2010, while reducing the importance of these sectors in its services exports, which continue to be concentrated on travel, as before mentioned.

Chart 11: BRICS: countries' share of world services exports in NDS (2001-2010)

Source: WTO.

As shown in Chart 11, India and China share the lead among the BRICS in exporting NDS services, having relative participations of 5.65% and 5.60% in the world NDS

exports, respectively, in 2010. Brazilian and Russian services exports in NDS represented 1.1% each of the total world NDS exports. South African exports in NDS represent only 0.1% of the world trade in those sectors. Furthermore, there has been a clear growth trend for China and India in NDS trade since 2003, a phenomenon not seen for Brazil, Russia or South Africa, what indicates a surge in disparities amongst the BRICS as far as their integration into the international services market is concerned.

4 FINAL REMARKS

Despite the differences in the BRICS' integration processes into international trade in services, it is important to reiterate that the group's trade in services flows grew at higher rates than the world average and also the leading exporters and importers of services worldwide (U.S. and EU). This factor has increased the percentage share of the BRICS in global trade in services from 4.7% in 2000 to 10.3% in 2010. At the same time, though, from 2000-2010, the BRICS broadened their trade deficit in services, except India, which moved from deficit to surplus in 2004.

The United States increased its trade surplus in services from US\$ 70.5 billion in 2000 to US\$ 160 billion in 2010, even though with an average growth rate of its trade in services about 3 percentage points below the world average between 2000 and 2010. The European Union has also increased its trade surplus in services from US\$ 52 billion in 2004 to US\$ 95 billion in 2010, considering only extra-bloc trade. These data attest the centrality of the United States and the EU in international trade in services, confirming the high international competitiveness of their companies in the sector, a position that does not seem to be threatened in general by the rising share of BRICS' exports in international trade in services.

Therefore, despite the increasing participation of the BRICS in international trade in services, developed countries, particularly the United States and the EU, will probably continue to lead exports and imports of services in a near future. Among the BRICS, only India and China seem to have the ability to take positions of greater prominence in the services market, particularly in sectors such as computer and information services, in the case of India, and transport and other business services, for China. Brazil and Russia tend to find some room for expansion in the other business services sector, and South Africa in the travel sector.

Finally, one should bear in mind that the differences of interests and approaches among the BRICS concerning their participation in the international services market may become a potential source of conflict amid them, what might come to be observed in multilateral forums such as the WTO. Chinese *catch-up* in the services sector is underway and may well create new disputes in trade between China and other BRICS' countries. However, there is also an opportunity for the expansion of complementarities and the consequent opening of trade negotiations between countries of the group in specific sectors such as transport, travel, financial services, computer and information services and other business services, what would help create a cooperative and positive trade agenda.

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