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BRICS IN GLOBAL TRADE: THE EVOLVING ROLE OF SERVICES AND ITS COMPOSITIONS

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ABSTRACT

The trade in services has grown rapidly over the last 20 years, which has improved the BRICS countries' overall economic efficiency. All of the BRICS nations' services trade as a percentage of GDP in 2020 varied from 5.5% (China, Brazil) to roughly 12% (India). Based on balance of payments data, India strengthened its position as a net services exporter between 2000 and 2020. Brazil and the Russian Federation saw a decline in their negative trade balances, while South Africa's position stayed roughly neutral. China, on the other hand, saw a sharp growth in its negative trade balance in commercial services between 2010 and 2018, which only somewhat improved in 2019 and significantly improved in 2020. This paper tries to analyse the sectoral composition and FDI in the services sector for each BRICS nation. The main conclusion drawn from this research is that, in order for the BRICS countries to fully tap into the potential of their services economies, they must concentrate on raising the productivity of these industries. Doing so will enhance trade integration, consumer welfare, downstream productivity, and competitiveness.

Keywords: *BRICS, Global Trade, FDI, GDP, Trade Balance.*

Introduction

Over time, the services economy has experienced significant expansion in numerous countries. The movement began decades ago in the developed world, as manufacturing peaked in terms of jobs and the economy. It is currently expanding to the developing world. But the global services economy is facing significant challenges as a result of the COVID-19 pandemic. Even though the BRICS countries' services economies have been expanding, more trade integration—especially among the BRICS—is required. Even while a few, like China and India, excel, the BRICS are newcomers to the world of services commerce when measured with data from the balance of payments. Similarly, there is a lot of potential to increase trade between the BRICS nations.

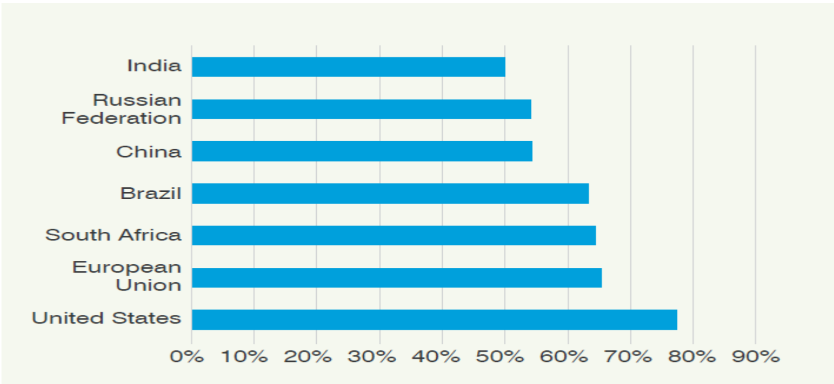

Figure 1: Services sector: Value added in GDP, 2019

Source: World Development Indicators Reports.

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The picture is slightly altered by the fact that services trade complements merchandise trade, a sector in which the BRICS have had great success. According to the data, the most dynamic sectors for intra-BRICS services trade are those like transportation, which are connected to patterns in the flow of products. According to recent figures, embedded services account for up to one-third of the value of manufactured items exported by the BRICS countries.

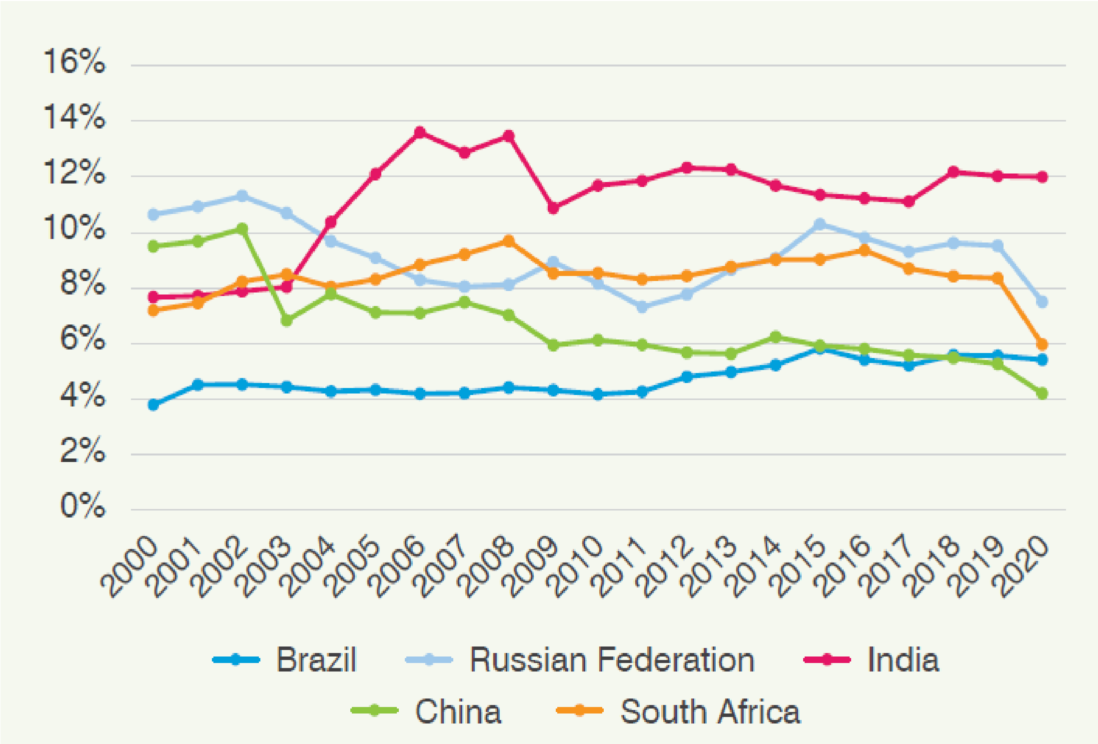

Figure 2: Services trade relative to GDP: BRICS Countries, 2000–2015

Source: World Development Indicators Reports.

The significance of services in the global economy is not exclusive to the BRICS nations. Of the BRICS, South Africa has the largest GDP service proportion (64%), only somewhat less than the EU. India is the BRICS nation with the lowest services percentage of GDP, which is still slightly less than 50%, based on per capita income. In all of the BRICS nations, the services sector plays a significant role in the overall economy, albeit less so than in wealthy nations.

Review of Literature

Levine (1996) outlines the five main tasks that financial systems carry out in order to lower transaction costs and enhance the distribution of actual resources: enabling risk trading, allocating capital to beneficial uses, keeping an eye on managers, mobilizing savings through the use of cutting-edge financial instruments, and simplifying the exchange of goods and services.Additionally, **Ruggiero (1998)** contended that deregulation of financial services has a favorable effect on the efficiency of the economy.

Banik and Bhaumik (2010) One of the key components of growth is the effective conversion of savings into investments, which is facilitated by a competitive and well-regulated financial sector.**(Moshirian, 1994)**One of the primary drivers of the expansion in the financial services trade was discovered to be the banks' overseas assets. He examines both contemporary and conventional concepts of financial services trade.The Organization for Economic Co-operation and Development (OECD; 1989–1990) defined international financial services as follows: (i) income from direct investment, received and paid, which has two categories (a) undistributed income and (b) interest; (ii) income from other (financial) investments received and paid; and (iii) commission and/or fees received or paid. Foreign financial services are defined as follows.

Webster and Hardwick (2005) have produced a number of very straightforward predictions of the economic theories of trade regarding international trade in financial services. The following were the forecasts: In situations where national markets are heavily monopolized, countries will typically export and import similar services; in situations where product differentiation is crucial, countries will typically export and import similar services; and in situations where there are notable variations in product attributes, countries will typically export and import similar services.

(Rana & Dowling, 1990) the economy will benefit from more investment in the export industry, even if it comes at the expense of other industries. Additionally, imports of capital goods and necessary raw materials are made possible by exports, which boosts economic investment and raises output. The outcomes of the financial services talks conducted under the WTOs and GATS are examined by **Mattoo (1999).** He demonstrates that many developing and transitioning economies now have more stable and transparent policy regimes thanks to the agreements, and that the nation's ability to implement sensible macroeconomic and regulatory policies is not jeopardized in the slightest by this commitment. He did, however, express concern about the lack of focus on fostering competition by permitting foreign equity participation and defending incumbents' positions

Research Methodology

The research on "BRICS in Global Trade: The Evolving Role of Services" will adopt a descriptive and analytical design, focusing on secondary data collection. Data will be sourced from international organizations such as the WTO, IMF, and World Bank, as well as trade databases like UNCTAD and OECD. The study will analyze trade data from 2000 to the present, using statistical methods to examine the contribution of services to BRICS economies' trade, including services trade balance and share of services in GDP. Purposive sampling will be used to select case studies from key service sectors, such as India's IT services and China's financial services, to provide insights into successful service exports. A comparative analysis will explore differences in service trade policies and performance across BRICS countries. Qualitative policy analysis will review the role of government initiatives and trade agreements in shaping services trade. Ethical considerations will focus on ensuring accurate citation of secondary sources. This approach aims to provide a comprehensive understanding of the trends and implications of the evolving role of services in BRICS' global trade.

Role of Services in BRICS

- **Sectoral Composition of BRICS**

Trade patterns for each of the BRICS countries are broken down sectorally using the experimental OECD-WTO balanced trade in services data. Where possible, these data are based on observations; in cases where original data cannot be observed, statistical approximations are used instead. They are balanced as long as reported exports and reported imports from partner nations are equal. Compared to the raw data in UN Comtrade, they have undergone extensive cleaning and pre-treatment, making them the highest quality data currently available.

This section explains the sectoral breakdown of each nation's exports and imports figures in this sector. BRICSs services exports are broken down by sector in the table for 2019. The data provide the most accurate estimate of trade in services by sector due to the manner they are constructed. The given numbers will differ from those from earlier research sources, including UN Comtrade, because significant statistical estimation is employed to address errors and fill in missing observations. Variations from other data sources should be seen as variations in the methods used for data collecting and processing rather than as modifications.

Services exports by BRICS countries

Table 1: Services Exports by BRICS Countries for 2019

Sector	Brazil	Russia	India	China	South Africa
Transport	27%	37%	12%	23%	22%
Travel	18%	17%	14%	17%	44%
Other business services	34%	21%	35%	27%	17%
Telecommunications, computer, and information services	6%	7%	31%	9%	4%
Financial services	4%	3%	2%	2%	4%
Charges for the use of intellectual property n.i.e.	2%	1%	1%	1%	1%

Insurance and pension services	2%	1%	1%	2%	3%
Maintenance and repair services n.i.e.	4%	3%		1%	1%
Personal, cultural, and recreational services	2%	1%	1%	1%	2%
Construction	-	6%	2%	7%	-
Government goods and services n.i.e.	1%	2%	1%	1%	2%

Source: BRICS Trade inServices Report 2022; International Trade Centre

- **Brazil**

Three industries stand out as having a significant impact: travel, transportation, and other business services. The features of these three regions are very dissimilar. Transport and trade of products are closely associated: payments made for goods shipped by a Brazilian shipping operator abroad are recognized as exports of services. Contrarily, travel accounts for the majority of Mode 2 trade, which consists of payments made by foreign tourists and business travellers to Brazil.

The majority is accounted for by the same three sectors: travel, transportation, and other business services. This conclusion is not surprising given that economies that are modernizing or modernizing frequently engage in significant quantities of two-way trade—that is, trade in differentiated goods or services within a sector as opposed to trade across sectors.

- **Russia**

A sectoral breakdown of services exported by the Russian Federation in 2019 is given in Table 1. The transportation, travel, and other business services sectors are the same as those in Brazil. Even if it is less important than in Brazil, construction is nevertheless very important to all three industries. In terms of competitiveness, this trend is comparable to that of Brazil. It is not feasible to delve further into these sectoral aggregates to determine which subsectors are more significant in each nation given the data that is currently available. Given variations in per capita income, it's plausible that there exist subtle variations in the economic structure.

- **India**

India exports is far different services than the other nations we looked at earlier. Given India's well-known success in IT services, it is not unexpected that telecoms, which encompasses computer and information services, is the second-largest subsector (Chanda, 2013). Additional business services, which include business process outsourcing, are also a significant source of revenue for exports. Similar to the other BRICS nations, transportation and travel play a significant role, albeit to a smaller extent. India has the best claim among the BRICS nations currently under investigation to the development of high-productivity services exports as key activities.

- **China**

Travel, transportation, and other business services account for a sizable share of China's services exports, although there are some notable variations. Approximately 7% of the total is made up of the telecom services sector, which includes computer and IT services.

Using imported intermediates, assembly activity is captured under the manufacturing-related services category. It should come as no surprise that the manufacturing sector contributes significantly to overall services exports, making up 7.9% of all exports, given China's success in joining GVCs. This performance pattern indicates that China is building the groundwork for a high-productivity services sector and is experiencing some success in international markets, much like India.

- **South Africa**

Table 1 demonstrates that almost half of South Africa's exports of services are in the travel sector, followed by other business services at 17% and transport (connected to the goods trade) at 23%. In terms of the total amount of services exported, the other industries are tiny. Similar to the majority of other BRICS nations, this conventional sectoral allocation of services exports only provides a limited opportunity for the modern services industry through other commercial services.

Services Imports by BRICS Countries

Table 2: Services imports by BRICS countries for 2019

Sector	Brazil	Russia	India	China	South Africa
Transport	17%	19%	25%	20%	25%
Travel	28%	32%	30%	47%	18%
Other business services	24%	17%	17%	11%	14%
Telecommunications, computer, and information services	10%	9%	10%	5%	18%
Financial services	7%	7%	3%	3%	7%
Charges for the use of intellectual property n.i.e.	7%	6%	6%	7%	9%
Insurance and pension services	1%	1%	2%	2%	3%
Maintenance and repair services n.i.e.	1%	2%	2%	1%	1%
Personal, cultural, and recreational services	2%	1%	2%	1%	1%
Construction	1%	5%	2%	2%	1%
Government goods and services n.i.e.	2%		1%	1%	2%

Source: BRICS Trade inServices Report 2022; International Trade Centre

- **Brazil**

The majority is accounted for by the same three industries: travel, transportation, and other business services. This conclusion is not unexpected given that contemporary and modernizing economies frequently engage in significant two-way trade—that is, trade in differentiated goods or services within a sector as opposed to trade between sectors.

- **Russia**

The Russian Federation's imports are likewise dominated by the same three industries, as Figure 1 demonstrates. However, significant imports also include financial services,telecommunications, and intellectual property fees (royals).

- **India**

India's trade pattern is more like the other BRICS countries when it comes to imports. Other commercial services, transportation, and travel are the main industries, and royalties are important to these sectors. There appears to be a substantial amount of two-way trade in this subsector, given the significance of other business services for both import and export.

- **China**

Comparatively speaking to the other BRICS nations, the majority of China's imported services are related to travel and transportation, with a smaller percentage going toward other commercial services. Its imports of services are primarily from traditional sectors. Transport service imports are closely related to China's exports of products, and travel indicates how more able Chinese citizens are to go outside in light of rising per capita wealth.

- **South Africa**

Similar to the other BRICS, travel, transportation (related to the trading of goods), and other business services make up a sizeable component of South Africa's imports. Payments for the use of intellectual property and financial services are huge imports when compared to the other nations in the group.

FDI in Services Sector

Using aggregate UNCTAD data on FDI stocks—which are more consistent year over year than equivalent flow data—this section examines FDI in the BRICS nations. Only China stands out as a key destination in and of itself, even though the BRICS as a group is attractive to foreign investors. Even while the trend is suggestive, a large portion of the total investment monitored by these figures would likely be in manufacturing as opposed to services. In the global context, China is a significant market for inward foreign direct investment (FDI), even though the absolute shares of FDI go to countries like the US and the EU.

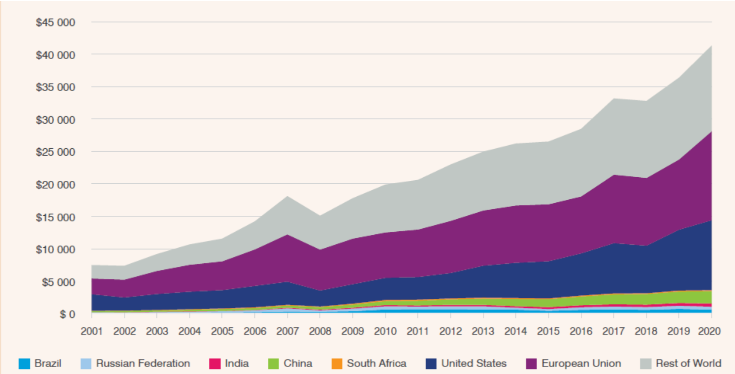

Figure 3: FDI Inward stocks, 2000–2020 (Figures are in $ billion)

Source: World Development Indicators Reports.

According to the data available, a sizeable amount of overall foreign direct investment (FDI) is driven by services, even in an economy like China that is primarily driven by manufacturing. According to the same source, 79% of inward foreign direct investment goes into services in India, an economy that is primarily driven by services. Due to the lack of data for Brazil and South Africa as well as the Russian Federation's report of a negative FDI flow for services in 2018, the percentage of the total is meaningful.

It is difficult to analyze the inward foreign direct investment (FDI) breakdown by country because many do not keep this kind of data up to date. The World Bank's experimental dataset on bilateral FDI used in this section is based on real data from OECD, UNCTAD, and other sources. Although mirroring is used to try to fill in the gaps in the data, it should still be considered incomplete. It also includes observations like negative stocks that are hard to interpret.

The percentages vary greatly throughout nations, from 20% in India to 60%–70% in China, Brazil, and South Africa. Since different sectors have varying propensities, sectoral specificities in trade composition among countries are largely responsible for this pattern. FDI restrictions are likely to be linked to decreased sales by foreign affiliates in comparison to alternative supply modalities, suggesting that policy has a role. From a trade standpoint, GATS Mode 3 is a significant means for the BRICS nations to import services, however the numeric significance varies significantly amongst nations.

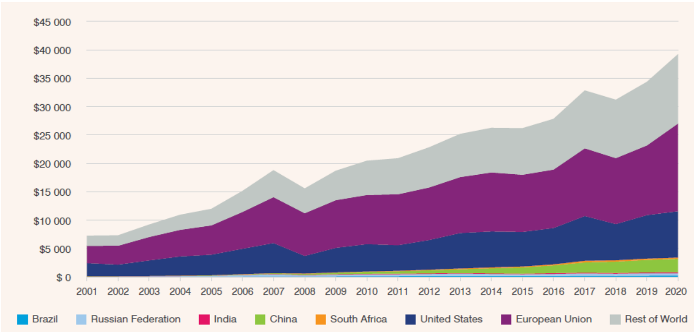

Figure 4: FDI outward stocks, 2000–2020 (Figures are in $ billion)

Source: World Development Indicators Reports.

Figure 4 illustrates how minor the BRICS are as a global source of foreign direct investment globally. China is the biggest participant, although it only makes up 6% of the total; the other BRICS nations make up far less. More foreign direct investment (FDI) originates from the United States and the European Union than from the BRICS nations collectively. Despite their increasing significance as FDI sources, the BRICS are still minor participants in the global investment market.

Similar to its inflow of foreign direct investment, India's outflow of capital is comparatively low in the South Asian region, probably because of political considerations. Europe, East Asia, North America, and sub-Saharan Africa are the main participants. Even if the statistics may have quality problems, the BRICS's result is consistent with that of the other members of the group: at less than 2% of the total, they are not significant destinations for outbound foreign direct investment.

Significant fluctuation can be seen in the export side of the Mode 3 trade transactions between the BRICS, most likely as a result of variations in sectoral patterns of specialization. A key stylized fact is that around 70% of all service exports come from China, which is the country most dependent on Mode 3. The percentages are less for other nations, but they are still very important for Brazil and the Russian Federation, where they are close to 50%. The levels in South Africa and India are far lower. From a commercial perspective, some of the BRICS countries heavily rely on sales by overseas affiliates to generate revenue from services exports, even though outward FDI by the group accounts for a relatively tiny percentage of global FDI.

Conclusion

The main conclusion drawn from this data-driven research is that the BRICS countries should prioritize raising service sector productivity in order to fully fulfill the potential of their services economies. Doing so would enhance trade integration, consumer welfare, downstream productivity, and competitiveness. The economy will keep pushing in that direction; growing incomes will cause consumers to change to services, and more people using GVCs as production platforms will result in a rise in the demand for intermediary services. The BRICS could benefit from services: India is already quite successful in industries like business process outsourcing and information technology. It is imperative that the BRICS tackle persistent obstacles that could potentially impede their assimilation into the worldwide services markets.

Services integration within the BRICS confronts major challenges. Trade in services is influenced by variables including market size and trade costs, which both favor trade between the BRICS and developed nations over trade within the BRICS. Comparative advantage patterns are another problem. The data indicates that variations in the endowments of the factors that drive trade are significant, and the BRICS are particularly rich in low-skilled labor yet deficient in both human and financial capital. As a result, there appear to be more opportunities for short-term service trade integration between the developed world and the BRICS than inside the BRICS. That does not exclude BRICS from working together to significantly boost the world services sector, though.

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