PART C

Deepening Cooperation in Services among BRICS members

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by Prof. Rupa Chanda[1]

1. Introduction

The last two decades have witnessed considerable changes in the world's geopolitical and economic landscape. Several large developing economies have become important as producers, consumers, trading partners, recipients of capital flows, and suppliers of manpower. Although these economies are at different stages of integration with the world economy and have followed different trajectories for development, they have all become increasingly important in shaping the location, organization, and distribution of global production. In particular, the economies of Brazil, Russia, India and China or the BRICs, a term first coined by Goldman Sachs in 2001, have received the most attention given their significance in terms of critical dimensions such as territorial size, population, potential as consumer markets, and strategic role and influence within their respective home regions. More recently, with the entry of South Africa into this club, the group has been re-named BRICS, further expanding its geopolitical influence and giving it a four continent reach.

Over the past decade, the term BRICs, and since 2010 the term BRICS, have come to represent the gradual shift in global economic power towards emerging economies and away from the developed G7 economies. In 2010, these economies accounted for a combined GDP of around $11.4 trillion (and over US $18 trillion on PPP basis), representing 18 percent of global output, compared to less than 10 percent a decade earlier.[2] According to Goldman Sachs, by 2050, their combined output would surpass that of the G-7 countries. The BRICS have also become increasingly important in global trade and capital inflows, due in large part to the liberalization of their trade and FDI policies. Their share in inward FDI flows has trebled between 2000 and 2010, from a little below 6 percent to nearly 18 percent[3] and their share in global exports of goods and services has grown from less than 7 percent to over 15 percent during this same period.[4]

Perhaps what distinguishes the BRICS from many other developing countries is that their significance has extended beyond the presence of local market opportunities. These economies have emerged as

1 *The author is a Professor of Economics at the Indian Institute of Management Bangalore. She is grateful to Kirthiga Balasubramaniam, Sasidaran Gopalan and Shahana Mukherjee for their excellent research assistance.*

2 *Author's calculations based on World Bank database (accessed on November 29, 2011). See Table 1 in this paper.*

3 *Author's calculations based on UNCTAD statistics, http://unctadstat.unctad.org/ (accessed on October 29, 2011). See Table 3 in this paper.*

4 *Author's calculations based on UNCTAD Statistics, http://unctadstat.unctad.org/ (accessed on November 15, 2011). See Table 2 in this paper.*

important drivers of markets and of trade and investment opportunities outside their markets. The total value of FDI outflows from the BRICS economies has risen from a mere $7 billion in 2000 or 0.6 percent of global outward FDI flows to over $140 billion in 2010, or 11 percent[5]. Likewise, their imports of goods and services from the rest of the world have increased from around $475 billion or 6 percent of global imports of goods and services to over $2 trillion or over 14 percent[6]. The BRICS are also key players in the international division of labour, with over 40 percent of the world's labour force[7]. They have also made their presence felt in other important areas such as global energy demand, climate change negotiations, macroeconomic policy coordination, and exchange rate management. Thus, the significance of the BRICS lies in their ability to both influence and to be influenced by the global economy, stemming from a wide range of inherent as well as policy-induced factors.

These five leading emerging economies are, however, very different from each other. As one report put it, "China is the workshop of the world, Russia is regarded as a petrol station, India is the Office, Brazil and South Africa provide raw materials."[8] Although they face many common development challenges and share a common desire for a new world order, they are also potential rivals and have many differences. At the recent BRICS Summit in Sanya, the Indian Prime Minister aptly noted, "The challenge before us is to harness the vast potential that exists among us. We are rich in resources, material and human. We are strengthened by the complementarities of our resource endowments. We share the vision of inclusive growth and prosperity in the world. We stand for a rule-based, stable and predictable global order. We respect each other's political systems and stages of development. We value diversity and plurality. Our priority is the rapid socio-economic transformation of our people and those of the developing world. Our cooperation is neither directed against nor at the expense of anyone."[9]

An important element in pooling this potential is the identification of possibilities for cooperation and greater economic engagement among the BRICS. Thus far, however, the BRICS have largely taken the form of a political organization with periodic summits and declarations on issues concerning the global economy and foreign policy. The group cannot be termed an economic or trade bloc. However, the possibilities for greater economic engagement are many. There is considerable scope for complementarity in trade and investment flows as well as for collaboration and cross-learning among these countries given their resource endowments and areas of competitiveness. Brazil and South Africa are well endowed in natural resources which are of import interest to others such as India and China. India is competitive in generic pharmaceuticals and labour-intensive services such as software and business process outsourcing, areas which some of the others in this grouping are interested in developing. China is competitive in manufacturing which is of import interest as well as a competitive challenge for the others. Russia has the potential to provide much needed energy resources to countries such as India and China for whom energy security is one of the main concerns today.

The service sector is one such area where the BRICS could potentially engage with each other through investments, trade, and collaborative ventures, and also learn from each other's experiences. With the growing importance of services in the economies of all the BRICS members, this sector is likely to play

5 *Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on October 29, 2011). See Table 3 in this paper.*

6 *Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 15, 2011). See Table 2 in this paper.*

7 *Author's calculations using UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 3, 2011). See Table 4 in this paper.*

8 *New York Times (2010)*

9 *http://www.mea.gov.in/mystart.php?id=100517541*

an increasingly important role for fostering cooperation and commercial relations among the BRICS countries. Services today account for over 50 percent of GDP in Brazil, India, Russia, and South Africa.[10] Services trade has also grown in importance for Brazil, India, and China. There are also specific service subsectors where the BRICS are competitive. For instance, India is competitive in IT-ITeS services, China in transportation and logistics services, South Africa in tourism and financial services, Russia in energy services, and Brazil in retail services, also suggesting possible complementarities among them in the service sector. In light of the considerable liberalization undertaken by these economies in their service sectors over the past decade and the growing internationalization of their firms, there is scope for increased cross border investment among the BRICS in the service sector, not only to supply each other's markets but also to leverage each other as bases for exports to third countries. Further, given the demographic complementarity among the BRICS with some members likely to face demographic challenges and some with the potential to reap demographic dividends, there are also opportunities for these countries to benefit from each other's human resources, with ramifications for cooperation in labour-intensive and knowledge-based services. Thus there are many possible sources for synergies among these countries in the service sector.

To date, however, there has been little or no analysis of the prospects for deepening cooperation among the BRICS, particularly in the service sector. Most of the focus on BRICS has thus far been on their role as an international negotiating group and their overall significance as markets of strategic interest to other countries. Analysis of their prospects in specific sectors such as services and their prospects in each other's markets has been limited. This paper attempts to fill this gap. It aims to understand the possible synergies in services trade among the BRICS members and to identify the ways in which these synergies could be realized. It is structured as follows.

Section 2 provides a brief background on the BRICS economies and their contribution to the world economy. This is followed by a detailed overview of their service sectors in Section 3. The discussion highlights the contribution of services to total output and employment in these economies and also outlines the sub-sectoral trends and characteristics of their services sectors. Projections regarding the future size of the service sector in these countries are also provided. Section 4 outlines the trends in services exports and imports for the BRICS countries and the contribution of different subsectors to their services trade. It also presents indicators of competitiveness for these countries across various service subsectors in order to identify areas of potential competition and complementarity among them in services trade. Section 5 provides a similar overview for investment inflows and outflows, highlighting the trends, the sectoral and partner country characteristics in order to identify the significance of services in investment flows for the BRICS and the areas for competition and complementarities among them with respect to services investment. Section 6 discusses the trends in regulatory reforms and unilateral liberalization by the BRICS in their service sectors. It identifies the key barriers affecting services exports to BRICS markets and the prospects for entering each other's markets. Section 7 discusses the extent to which the BRICS have engaged in multilateral, bilateral and regional liberalization of services and provides a comparative assessment of their GATS and RTA commitments in selected services vis a vis their existing policies in these same subsectors. Section 8 highlights the policies and measures which these governments have introduced to support the growth of their service sectors and in particular services exports. This section also highlights the case of one or two successful services in each BRICS member and the lessons these provide to the others in this group. Section 9 concludes by summarizing the possibilities for cooperation, commercial engagement, and learning among the BRICS in the service sector and by providing a roadmap to deepen services trade among the members as well as increase their presence in the global services market.

10 Based on UN statistics. http://unstats.un.org/ (accessed on November 28, 2011). See Table 5 in this paper.

2. An Overview of BRICS in the World Economy

Any discussion of the BRICS requires one to first place them in the global context so as to understand where they stand as a group, how their contribution to the world economy has evolved, how individual member countries within this grouping compare with each other, and the commonalities and differences across them with regard to their performance and potential. The following discussion provides a brief overview of the trends in economic performance of the BRICS economies, individually and as a group in key areas such as output, trade and investment flows. It also highlights their significance in shaping global demographic and labour market trends. The objective is to help situate the subsequent discussion on services trends and prospects in these economies, within this broader context.

2.1. Economic contribution of BRICS

In economic terms, the contribution of the BRICS has been rising. From a cumulative share of around 7 percent of global output in 1995, their share rose to a little over 18 percent of global GDP in 2010 in nominal terms[11] (and over 20 percent of global GDP in PPP terms)[12]. Inward FDI flows to these economies have risen from around $80 billion in 2000 to around $220 billion in 2010, indicating their growing importance as destinations for global capital and as production bases[13]. Growth in outward FDI from these countries has been even more striking, rising from a little over $7 billion in 2000 to over $30 billion in 2005 and to $146 billion in 2010, growing more rapidly than global FDI flows over this period[14]. Likewise, reflecting their growing competitiveness and integration with world markets, exports and imports of goods and services by the BRICS have more than trebled between 2000 and 2010, more rapidly than global trade flows over this period. Between 2000 and 2010, their exports of goods and services have grown from $555 billion to $2.8 trillion while their imports of goods and services have increased from $475 billion to $2.3 trillion[15].

Although all the BRICS countries have increased their economic contribution to the global economy, these trends have been dominated by China, often exactly mirroring trends in China's economic performance. China alone accounted for half of the combined GDP of all the BRICS countries in 2009. Its share in world GDP more than doubled from 3.6 percent to 7.2 percent between 2000 and 2009. In contrast, India experienced lower though still a significant increase in its contributions to global output, from 1.5 percent to 2.3 percent over the 2000 to 2009 period. In contrast, South Africa's and Brazil's share in global output remained virtually the same while Russia's share in global output rose marginally from 1.4 percent to 1.7 percent during this period.[16] Similarly, China's share in global exports and imports of goods and services as well as inward FDI flows increased several-fold between 2000 and 2010, while the increase in the contribution of the other BRICS to global trade flows was much less striking. China alone accounted for over half of all trade and FDI flows for the BRICS economies.[17]

11 Author's calculations based on UN Statistics, http://unstats.un.org/ (accessed on November 29, 2011). See Figure 1 in this paper.

12 Based on World Bank database (accessed on November 29, 2011) See Table 1 in this paper.

13 Author's calculations using UNCTAD database, http://unctadstat.unctad.org/ (accessed on October 29, 2011). See Figure 3.

14 Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on October 29, 2011). See Table 3 in this paper.

15 Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/(accessed on November 15, 2011). See Figure 2.

16 Author's calculations using World Bank database (accessed on November29, 2011).

17 Author's calculations using UNCTAD database, http://unctadstat.unctad.org/ (accessed on October 29, 2011).

Table 1 provides the main economic indicators for the BRICS economies. It captures the scale of their output, trade, FDI, and population of all these economies and also makes evident China's dominance within this group in all respects. It also highlights the much smaller size of South Africa in all respects and its particularly high unemployment rate in South Africa, which makes it an anomaly within this group.

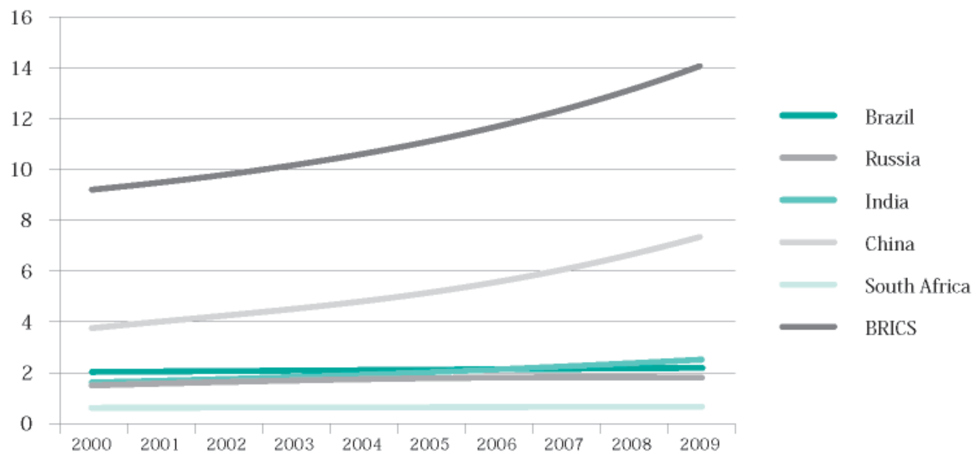
TABLE 1: ECONOMIC AND OTHER INDICATORS FOR THE BRICS, 2010

	GDP Current (US $bn)	GDP growth (%)	Population (mn)	PPP Per Capita GDP (US$)	PPP GDP (US $bn)	Total merchandise exports (US $bn)	Total service exports (US $bn)	Total export in merchandise and services (US $bn)	Trade/GDP (%)	FDI inflows (US $bn)	FDI inflows/GDP (%)	Unemployment (%)
Brazil	2087.8	7.5	194.9	11127	2169.2	201.9	32.8	234.7	21.4	48.4	2.3	6.7
China	5878.6	10.3	1338.3	7535.5	10084.7	1578.3	158.2	1736.4	54.2	105.7	1.8	6.1
India	1729	9.7	1170.9	3585.6	4198.6	221.4	116.3	333.2	43.3	24.6	1.5	10.0
Russia	1479.8	4	141.7	19840.4	2812.3	400.4	44.5	444.5	49.1	41.2	2.8	7.5
South Africa	363.7	2.8	49.9	10485.8	524.1	85.7	14	99.8	52.6	1.6	0.4	24.9
WORLD	63044	4.2	6840.5	11150.8	76277.6	15174.4	3745.4	18975	30.1	343.6	2.1	8.7

Source: World Bank, UNCTAD, https://www.cia.gov/ (accessed on November 29, 2011)
Note: Unemployment numbers are estimates for 2010 for Brazil, Russia, India, South Africa and the world and September 2009 estimates for China

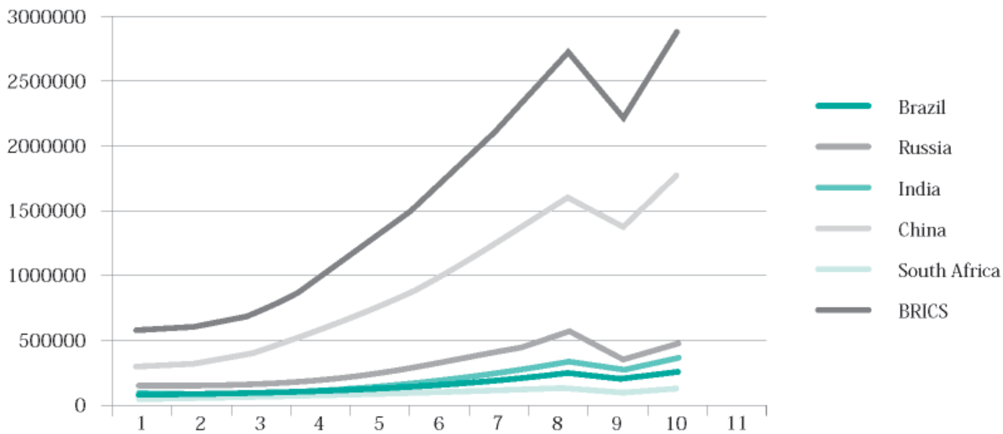
The following tables and figures illustrate the significance of the BRICS in the world economy and China's role in driving overall trends in this group. The data also highlight their relative sizes and the asymmetries in their economic performance.

FIGURE 1: SHARE OF BRICS ECONOMIES IN WORLD GDP, 2000-10 (%)



Source: Author's calculations based on UN Statistics, http://unstats.un.org/ (accessed on November 29, 2011)

FIGURE 2: EXPORTS OF GOODS AND SERVICES BY THE BRICS ECONOMIES, 2000-10 (US$ MN)



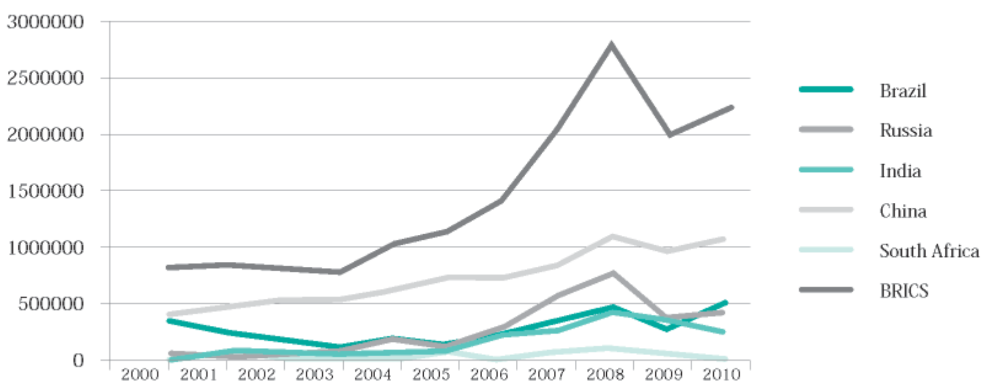
Source: Based on UNCTAD Statistics, http://unctadstat.unctad.org/ (accessed on November 15, 2011)

TABLE 2: SHARE OF WORLD EXPORTS AND IMPORTS OF GOODS AND SERVICES FOR THE BRICS, SELECTED YEARS (%)

	EXPORTS			IMPORTS		
	2000	2005	2010	2000	2005	2010
ECONOMY						
Brazil	0.8	1.0	1.2	0.92	0.77	1.36
China	3.5	6.4	9.2	2.17	1.58	8.33
India	0.7	1.2	1.8	0.87	1.44	2.31
Russia	1.4	2.1	2.3	0.80	1.34	1.84
South Africa	0.5	0.5	0.5	0.44	0.58	0.51
Total BRICS	7.0	11.2	15.0	6.20	9.70	14.34

Source: Authors' calculations based on UNCTAD Statistics, http://unctadstat.unctad.org/ (accessed on November 15, 2011)

FIGURE 3: FDI INFLOWS IN THE BRICS ECONOMIES, 2000-10 (US$ MN)



Source: Based on UNCTAD Statistics, http://unctadstat.unctad.org/ (accessed on October 29, 2011)

TABLE 3: SHARE OF BRICS ECONOMIES IN GLOBAL FDI FLOWS, SELECTED YEARS (%)

	Inward FDI			Outward FDI		
ECONOMY	2000	2005	2010	2000	2005	2010
Brazil	2.34	1.53	3.89	0.19	0.29	0.87
China	2.90	7.37	8.50	0.07	1.39	5.14
India	0.26	0.78	1.98	0.04	0.34	1.11
Russia	0.19	1.31	3.31	0.26	1.45	3.91
South Africa	0.06	0.68	0.12	0.02	0.11	0.03
Total BRICS	5.75	11.67	17.82	0.58	3.57	11.05

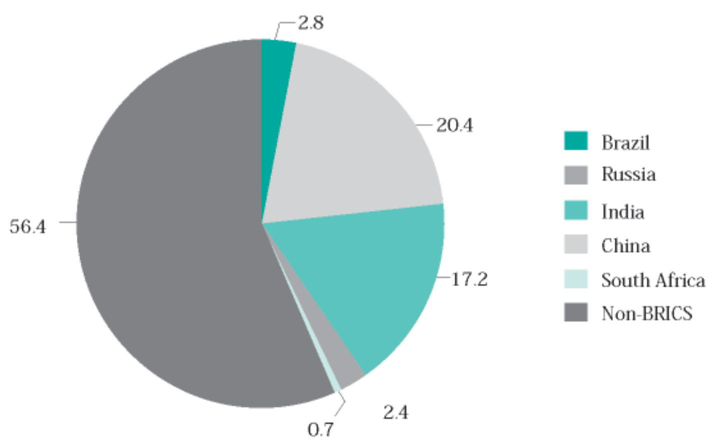
Source: Based on UNCTAD Statistics, http://unctadstat.unctad.org/ (accessed on October 29, 2011)

The preceding overview clearly indicates that the BRICS are not a homogenous group. The aggregate statistics mask considerable differences among them in terms of economic size and the degree of integration with and influence on world markets. China's performance is noteworthy, surpasses that of all the others consistently; India's is more moderate but shows a consistent upward trend, Brazil and Russia are less consistent; and South Africa lags considerably behind the others with stagnant or even declining trends. These differences suggest that it may not be appropriate to draw generalizations based on the BRICS as a whole. Individual economies within this group reflect different potentialities.

2.2. BRICS and the Global Labour Market

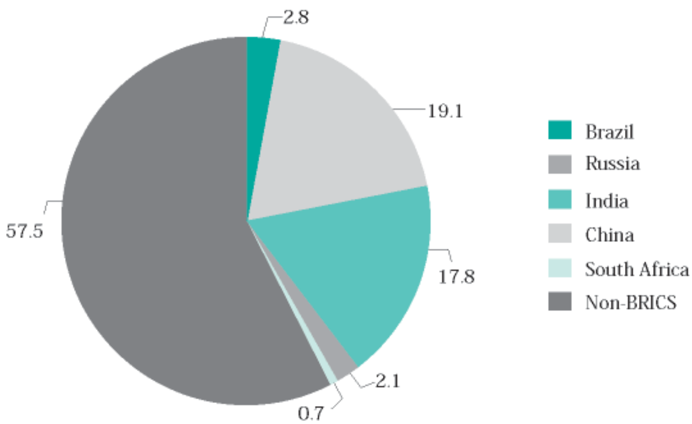
Demographics are a major factor shaping the role of the BRICS in the world economy. With a combined population of 3.2 billion and a labour force of 1.6 billion, the BRICS together accounted for around 43 percent world's population as well as labour force in 2010.[18] Hence, the BRICS assume significance in the international labour market which is confronted with severe shortages of skilled and less skilled workers.

FIGURE 4A: SHARE OF WORLD POPULATION IN 2000 (%)



18 *Author's calculations using UNCTAD statistics. http://unctadstat.unctad.org/ (accessed on November 3, 2011)*

FIGURE 4B: SHARE OF WORLD POPULATION IN 2010 (%)



Source: Author's calculations using UNCTAD statistics. http://unctadstat.unctad.org/ (accessed on November 3, 2011)

TABLE 4: SHARE IN GLOBAL LABOUR FORCE (%)

	Brazil	China	India	Russia	South Africa	BRICS	Non-BRICS
2000	3.0	26.1	14.2	2.6	0.6	46.3	53.7
2005	3.1	25.2	14.4	2.5	0.6	45.8	54.2
2010	3.1	24.3	14.8	2.3	0.6	45.2	54.8
2015	3.2	23.4	15.1	2.1	0.6	44.4	55.6
2020	3.2	22.2	15.5	1.9	0.6	43.4	56.6

Source: Author's calculations using UNCTAD statistics. http://unctadstat.unctad.org/ (accessed on November 3, 2011)

However, these aggregate statistics once again hide huge differences in demographic outlook among the BRICS countries. China and India together account for around 86 percent of the group's population and labour force. There are also considerable differences among them with regard to the projected changes in working age population, in both absolute and relative terms, with consequent implications for their growth, savings, and investment prospects. According to UN population projections, only India and Brazil have a favourable demographic outlook. By 2020, the working-age population in India is expected to rise by 240 million and by 20 million in the case of Brazil. In contrast, it is projected to decline sharply by 20 million in Russia. China's working age population is expected to peak in 2015 and decline thereafter, overall growing by 10 million between 2010 and 2020. These shifting demographic trends are reflected in the BRICS' gradually declining share in world population and workforce.

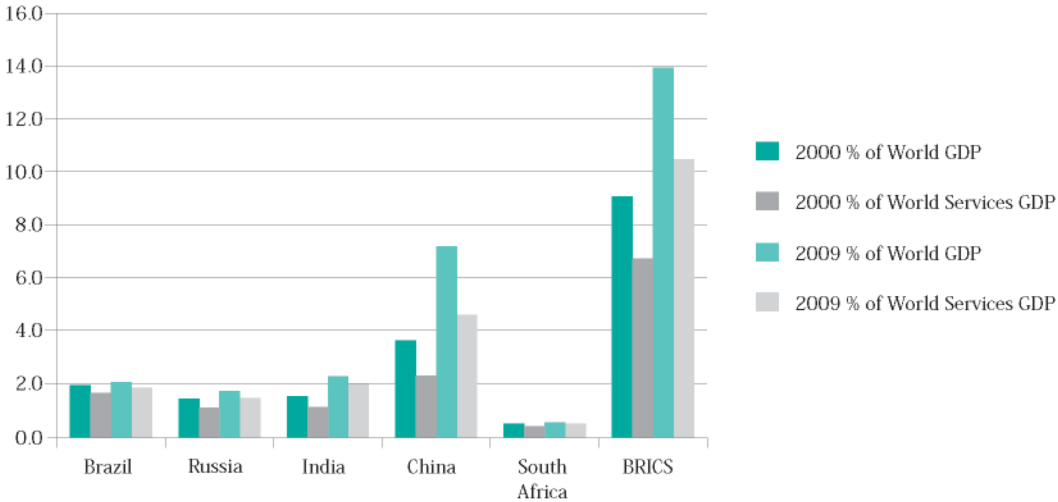
3. Services Output and Employment in the BRICS

It is evident that overall, the BRICS are clearly an important economic grouping whose economic influence is growing. The following discussion starts by examining the contribution of the BRICS as a whole to global services output and the extent to which the latter is in line with their overall contribution to world output. The objective is to understand how vibrant their services sectors have been and the role played by services in their emergence on the world market. This is followed by a detailed discussion of the performance of the service sector in the BRICS, including the trends in growth and composition of services output as well as trends in services employment in these countries. The discussion also outlines the sector's performance relative to other parts of the economy.

3.1. BRICS and the world services economy

The BRICS have seen a significant increase in their share of world services GDP from around 6.7 percent in 2000 to around 10.5 percent in 2009.[19] This trend is similar to that seen for the BRICS' contribution to total world GDP which has similarly increased from around 8 percent to 14 percent over the 1990-2009 period (see Figure 1). However, the relative significance of the individual countries in global services output varies. The increased contribution is mainly on account of India and China, whose shares in world services GDP have about doubled. In contrast, the contributions of South Africa, Russia and Brazil to world services output show only marginal increases between 2000 and 2009.

FIGURE 5: BRICS IN WORLD GDP AND WORLD SERVICES GDP (%)



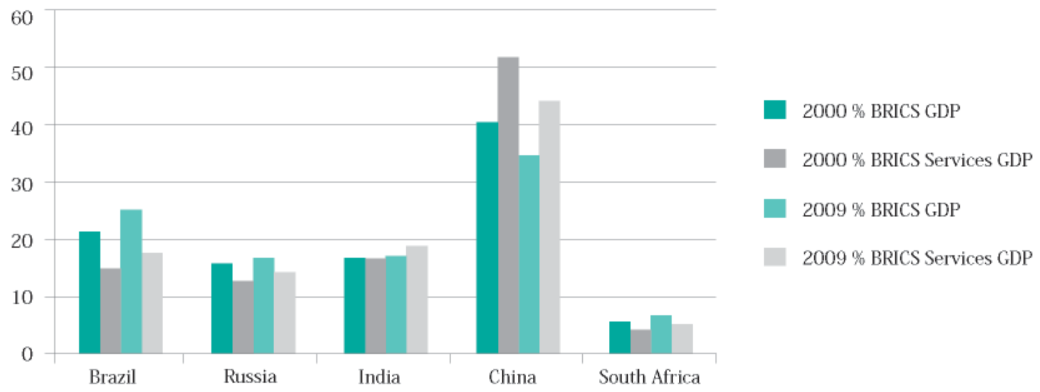
Source: Based on UN Statistics, http://unstats.un.org/ (accessed on November 29, 2011)

The relative strength of China is evident from its increased share in both overall BRICS GDP and in BRICS services GDP between 2000 and 2009. While the shares of Brazil, Russia and South Africa have fallen, particularly of Russia; China's share in both BRICS GDP and in BRICS services GDP has more than doubled over the 1990-2009 period.[20] India's share has decreased marginally in overall BRICS GDP but has increased by one and a half times in the case of BRICS services GDP. Hence, India's service sector is clearly growing faster than its overall economy (indicating other lagging sectors) while China's service sector has moved in parallel with the overall economy, suggesting an overall dynamism in its economic performance. These statistics also indicate the much higher growth experienced by China in overall as well as service sector growth compared to all the other BRICS, with India a distant second. Figure 6 illustrates the relative sizes of the individual BRICS economies in overall as well as services GDP.

19 *Author's calculations based on UN Statistics, http://unstats.un.org/, (accessed on November 29, 2011). See Figure 5.*

20 *Based on UN statistics http://unstats.un.org/ (accessed on November 29, 2011). See Table 5 in this paper.*

FIGURE 6: SHARE OF INDIVIDUAL COUNTRIES IN TOTAL BRICS GDP AND IN TOTAL BRICS SERVICES OUTPUT (%)



Source: Based on UN Statistics, http://unstats.un.org/ (accessed on November 29, 2011)

3.2. Services Output in the BRICS

The evidence presented above indicates that the significance of the service sector varies considerably across the BRICS and that the services have played a varying role with regard to shaping the importance of individual BRICS countries in the global economy. The latter is also evident from the differences in absolute size, growth rates, and pattern of services growth seen across the BRICS economies.

The size of the service sector varies considerably across these countries, from $182.9 billion for South Africa to $1.6 trillion for China in 2009. Brazil, Russia and India have roughly similar size service sectors, estimated at $626.7 billion, $509.8 billion and $678.5 billion, respectively in 2009. However, a common feature of all these economies, save China, is that in absolute terms services output has increased by more than the output in the primary and secondary sectors over the 1990-2009 period. In the case of China, although services output has grown significantly over this period, this has been surpassed by the growth in secondary sector output, reflecting China's prowess in the manufacturing sector. Among the BRICS, China and India have witnessed the most rapid increase in their services output. China's services output has increased seven-fold and India's has increased six-fold over these two decades, while services output has less than doubled in the case of the other three countries. Thus, the general pattern of superior economic performance noted earlier for India and China, is also evident in the case of their service sectors compared to those in the other BRICS economies.

Table 5 shows the value of output across the primary, secondary and tertiary (inclusive of construction services) sectors for all five economies. It shows the vast range in their services value added as well as in the overall size of these economies. It also highlights the more rapid growth in services compared to the growth in other sectors for most of these countries.

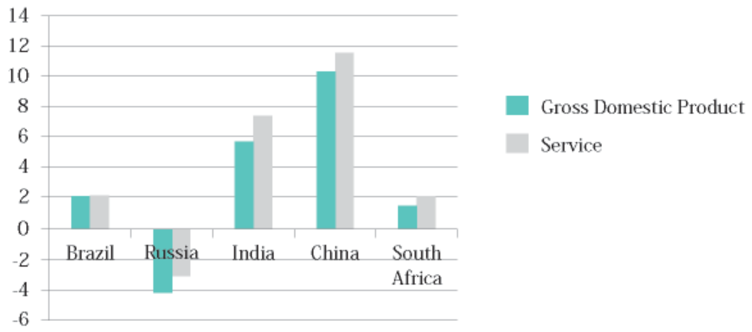
TABLE 5: VALUE OF GDP BY SECTORS (US$ BN)

		1990	2000	2005	2009
Brazil	Gross Domestic Product	518.21	656.49	756.76	867.66
	Primary	24.44	35.20	43.20	47.56
	Secondary	127.25	157.74	184.46	193.46
	Tertiary (with construction)	366.51	463.55	529.10	626.65
Russia	Gross Domestic Product	639.28	469.85	670.90	768.01
	Primary	42.35	29.02	36.34	41.85
	Secondary	215.77	132.65	220.56	216.33
	Tertiary (with construction)	381.16	308.18	414.00	509.84
India	Gross Domestic Product	325.10	559.11	784.56	1057.97
	Primary	101.31	128.33	146.67	160.36
	Secondary	67.58	117.19	159.94	219.15
	Tertiary (with construction)	156.21	313.60	477.96	678.45
China	Gross Domestic Product	544.80	1437.94	2256.90	3422.47
	Primary	155.33	225.65	273.60	363.81
	Secondary	172.17	575.20	942.49	1480.58
	Tertiary (with construction)	217.31	637.09	1040.80	1578.07
South Africa	Gross Domestic Product	151.69	182.39	220.32	250.92
	Primary	5.10	5.47	5.88	6.18
	Secondary	50.34	55.10	62.60	61.89
	Tertiary (with construction)	96.25	121.83	151.83	182.85

Source: Based on UN Statistics, http://unstats.un.org/ (accessed on November 29, 2011)

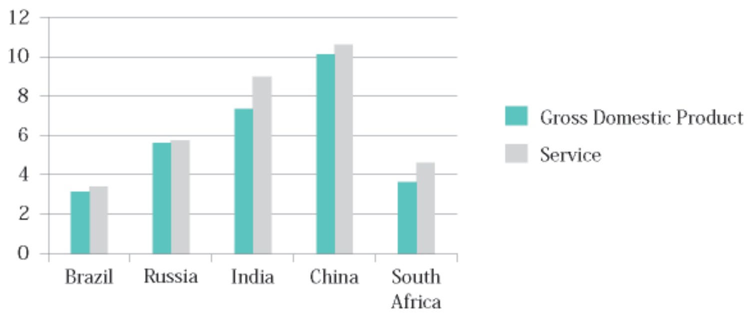
It is interesting to note that in almost all these economies (except China), services growth has picked up in the 2000-09 period compared to the 1990s. Most of the BRICS have witnessed higher average annual growth rates for services (and also for overall economy) in the post 2000 period compared to that in the preceding decade (when several of these economies experienced very low or even negative growth rates). Figures 7a and 7b illustrate the CAGR for services as well as overall GDP during the 1990-99 as well as the 2000-09 periods for all the countries. The figures make evident that services growth has helped boost overall economic growth in the BRICS, particularly in the last decade. The latter may be indicative of certain internal factors such as economic reforms and liberalization as well as external factors such as globalization and advances in technology, which have made possible more rapid services as well as overall economic growth. The figures also highlight that in China and India, services have exhibited higher growth rates than overall output during both the previous and recent decades and further that their growth rates for services (and also for overall GDP) have been significantly higher than in the other three BRICS. Thus, while these countries exhibit some common patterns in the performance of their service sectors over time and relative to other parts of the economy, there are differences among them in terms of the strength and consistency of their service sector's performance.

FIGURE 7A: CAGR OF GDP AND SERVICES, 2000-09(%)



Source: Author's calculations based on UN Statistics, http://unstats.un.org/ (accessed on November 29, 2011)

FIGURE 7B: CAGR OF SERVICES AND GDP 1990-99 (%)



Source: Author's calculations based on UN Statistics, http://unstats.un.org/ (accessed on November 29, 2011)

Table 6 highlights the average annual growth rates in these countries for all three sectors over the 1990-2009 period. It once again illustrates the improved performance in more recent years as well as the superior performance of India and China compared to the other BRICS, through this entire period. What is clear is that services have been an important contributor to the overall economic dynamism exhibited by the BRICS in the last decade and in the case of Brazil, Russia and South Africa, services have also helped in offsetting the low and even negative growth rates experienced in the primary and secondary sectors. China again stands apart in that growth has been more balanced with both services and industry contributing in almost equal measure to overall economic growth.

TABLE 6: AVERAGE ANNUAL GROWTH RATES OF GDP (%)

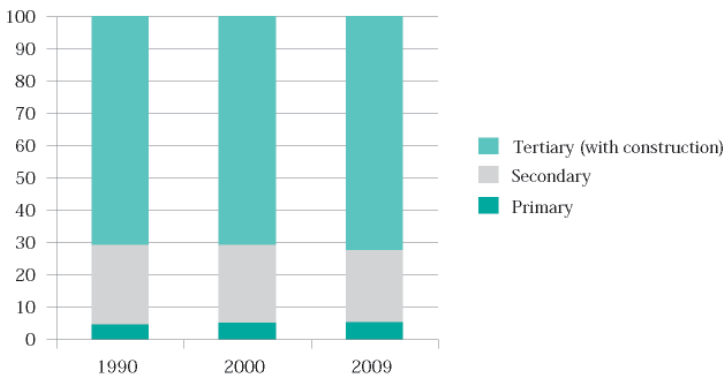
		1991-95	1996-2000	2001-05	2006-09
Brazil	Gross Domestic Product	2.91	1.92	2.90	3.50
	Primary	4.19	3.28	4.21	2.53
	Secondary	3.54	0.98	3.21	1.28
	Tertiary (with construction)	2.61	2.16	2.69	4.33
Russia	Gross Domestic Product	-6.90	1.20	7.43	3.65
	Primary	-7.73	1.32	4.66	3.63
	Secondary	-9.56	0.67	11.28	-0.26
	Tertiary (with construction)	-5.40	1.48	6.09	5.58
India	Gross Domestic Product	5.33	5.85	7.03	7.77
	Primary	2.31	2.63	2.89	2.28
	Secondary	6.75	4.70	6.44	8.25
	Tertiary (with construction)	6.57	7.90	8.81	9.16
China	Gross Domestic Product	11.87	8.56	9.44	10.98
	Primary	4.16	3.46	3.94	7.49
	Secondary	16.03	9.74	10.40	12.00
	Tertiary (with construction)	13.10	9.65	10.32	10.98
South Africa	Gross Domestic Product	0.96	2.79	3.86	3.35
	Primary	-2.17	6.09	1.53	1.44
	Secondary	0.26	1.60	2.60	-0.14
	Tertiary (with construction)	1.55	3.24	4.50	4.78

Source: Author's calculations based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

As a result of the increase in service sector growth in both absolute terms and relative to the growth experienced in other sectors of the economy, the share of services in total value added has grown considerably for all the countries over the 1990-2009 period. At the same time, the share of the primary sector has declined and that of the secondary sector has declined marginally or remained stagnant in all the countries except China where the secondary sector's share has risen alongside that of services. The tertiary sector, including construction services, accounted for two-thirds or more of the economies of Brazil, Russia, India and South Africa in 2009. Its share was lower, though still significant at around 46 percent for China in 2010. The increase in services share of GDP has been the greatest for India, rising from 48 percent in 1990 to 64 percent in 2009. For the others, the rise in the service sector's share in GDP has been in the range of 6 to 9 percent between 1990 and 2009. Brazil is the sole exception with virtually no change in the structure of its economy and in the relative contribution of services to total output, over this entire period. Broadly, the share of services in overall GDP for the BRICS countries is only slightly less than that seen for the world economy where services constitute around 70 percent of world GDP.

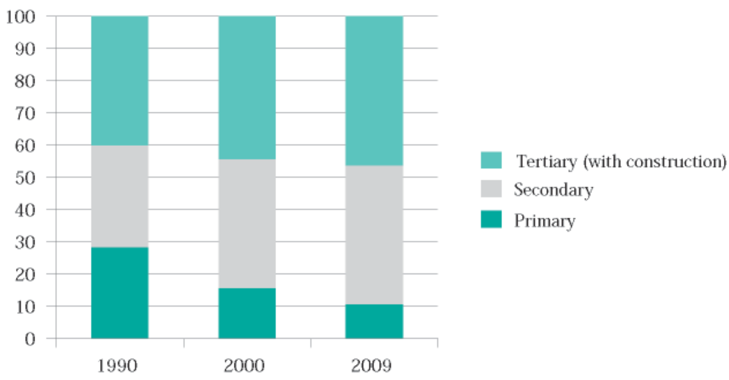
Figures 8A to 8E illustrate the change in sectoral composition of output for all the BRICS countries over the past two decades.

FIGURE 8A: COMPOSITION OF BRAZIL'S GDP, 1990-2009(%)



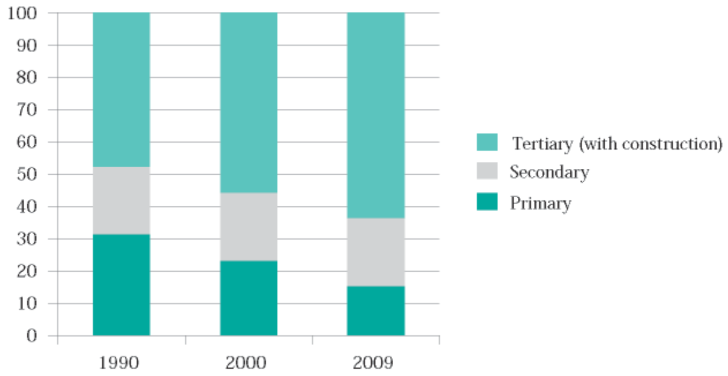
Source : Based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

FIGURE 8B: COMPOSITION OF CHINA'S GDP, 1990-2009 (%)



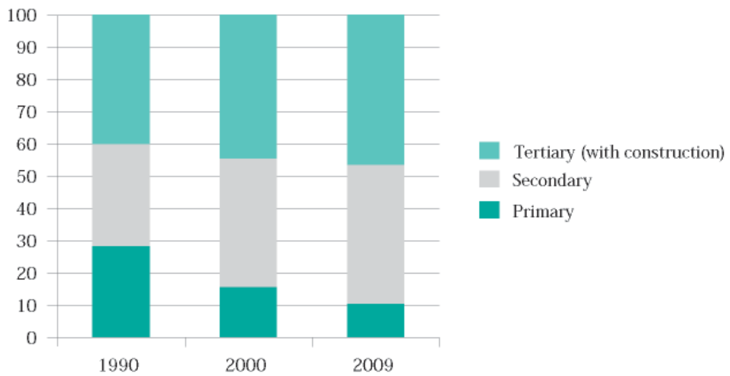
Source : Based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

FIGURE 8C: COMPOSITION OF INDIA'S GDP, 1990-2009 (%)



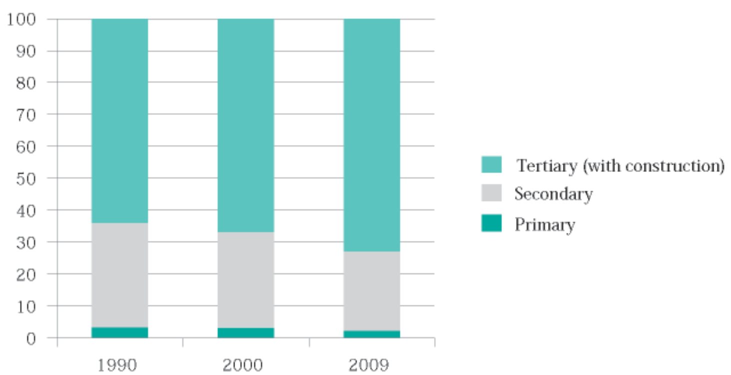
Source : Based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

FIGURE 8D: COMPOSITION OF RUSSIA'S GDP, 1990-2009 (%)



Source : Based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

FIGURE 8E: COMPOSITION OF SOUTH AFRICA'S GDP, 1990-2009 (%)



Source: Based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

Although disaggregated statistics on services output are difficult to obtain, available data for broad categories of services activities, namely, construction; trade and distribution; transport, storage and communication; and other services indicate that the overall composition of services output has not changed much over the 1990-2009 period. In 2009, construction services constituted between 8 to 13 percent of services GDP, except in the case of South Africa where their share is less than 5 percent. Trade and distribution services accounted for about one-fifth to a quarter of services output in all these economies and have marginally increased in importance in several BRICS (China, India, Russia) over the past two decades. Transport, storage and communication accounted for 10-16 percent of services GDP in 2009 and have declined slightly in importance in some of the BRICS (China and Russia). But it is the other services activities segment which has accounted for the bulk of services output throughout the 1990-2009 period and in countries where there have been any discernible shifts in the composition of services GDP, it is mainly this segment which has increased in relative importance. For example, in the case of Russia, the share of other activities has increased the most, from 35 percent of services output in 1990 to 46 percent in 2009, while the shares of segments such as construction and trade and distribution services have declined. Only in the case of China has there been a small decline in the share of other services. It is also worth noting that certain services segments constitute a very important part of the overall economy as well. Together, in 2010 the categories of trade and distribution services and of other services accounted for as much as 46 percent of Russia's total GDP, around 56 percent of South Africa's total GDP, and around 31 percent and 38 percent of total GDP of China and India, respectively.[21]

Table 7 shows the subsectoral breakdown of services output for selected years during the past two decades while Table 8 highlights the average growth rates of these different service segments over this period.

TABLE 7: SUB-SECTORAL COMPOSITION OF SERVICES GDP FOR SELECTED YEARS (%)

		1990	2000	2005	2009
Brazil	Construction	7.9	7.5	7.7	8.0
	Wholesale, retail trade, restaurants and hotels	26.5	26.6	26.6	26.5
	Transport, storage and communication	11.4	11.5	11.6	11.6
	Other Activities	54.2	54.3	54.1	53.9
Russia	Construction	17.4	12.6	11.0	10.3
	Wholesale, retail trade, restaurants and hotels	23.9	25.6	27.4	27.1
	Transport, storage and communication	23.2	18.2	16.4	16.5
	Other Activities	35.5	43.5	45.3	46.1
India	Construction	14.8	14.3	13.5	13.3
	Wholesale, retail trade, restaurants and hotels	25.6	25.1	25.4	26.3
	Transport, storage and communication	10.1	10.1	10.0	10.3
	Other Activities	49.5	50.5	51.1	50.0
China	Construction	8.0	9.4	10.1	10.8
	Wholesale, retail trade, restaurants and hotels	23.1	27.8	25.2	24.8
	Transport, storage and communication	17.0	15.6	15.8	15.0
	Other Activities	51.8	47.2	48.9	49.4
South Africa	Construction	4.7	4.2	3.9	3.9
	Wholesale, retail trade, restaurants and hotels	20.5	19.6	19.7	19.6
	Transport, storage and communication	10.4	10.3	10.5	10.7
	Other Activities	64.4	65.9	65.9	65.8

Source: Author's calculations based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

21 *Author's calculations based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011). See Table 7*

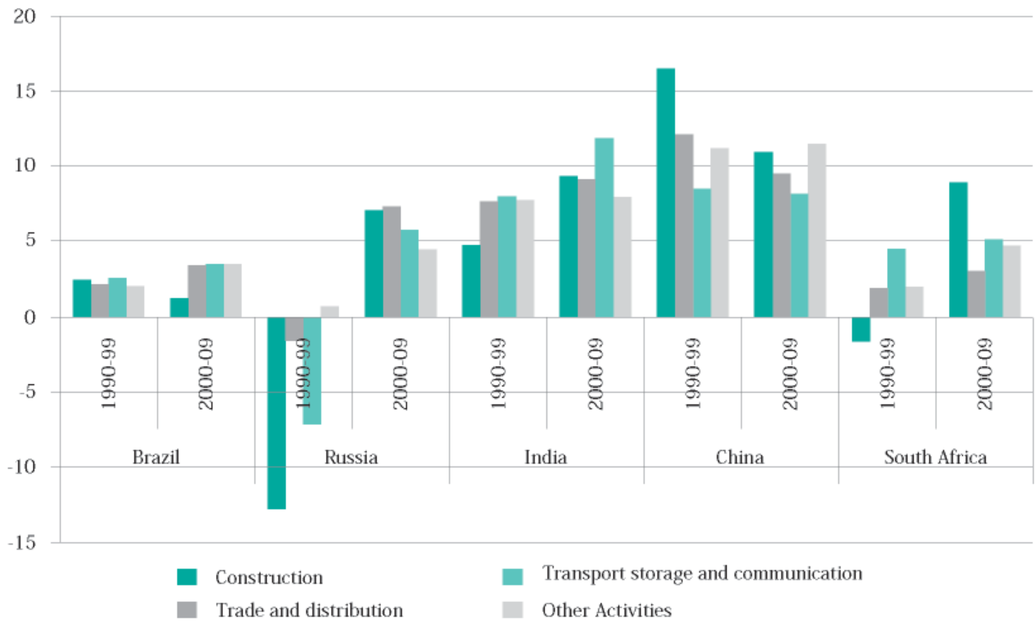
TABLE 8 : AVERAGE ANNUAL GROWTH RATES OF SERVICE SUBSECTORS (%)

		1991-95	1996-2000	2001-05	2006-09
Brazil	**Services GDP**	2.6	2.2	2.7	4.3
	Construction	2.7	2.4	0.2	2.9
	Wholesale, retail trade, restaurants and hotels	2.5	2.3	2.5	4.9
	Transport, storage and communication	1.9	4.6	3.4	3.9
	Other Activities	2.8	1.5	3.0	4.3
Russia	**Services GDP**	-5.4	1.5	6.1	5.6
	Construction (ISIC F)	-17.2	-1.0	9.3	5.4
	Wholesale, retail trade, restaurants and hotels	-2.4	2.3	8.7	6.1
	Transport, storage and communication	-12.1	1.3	7.1	4.4
	Other Activities	0.3	1.7	3.5	5.8
India	**Services GDP**	6.6	7.9	8.8	9.2
	Construction	3.6	6.5	10.5	8.1
	Wholesale, retail trade, restaurants and hotels	8.2	7.0	9.3	9.1
	Transport, storage and communication	7.4	9.2	13.0	10.6
	Other Activities	6.4	8.5	7.1	9.1
China	**Services GDP**	13.1	9.7	10.3	11.0
	Construction	21.3	10.0	11.6	10.5
	Wholesale, retail trade, restaurants and hotels	15.2	8.5	8.0	11.9
	Transport, storage and communication	9.0	9.8	7.6	9.3
	Other Activities	12.2	10.1	11.8	11.2
South Africa	**Services GDP**	1.6	3.2	4.5	4.8
	Construction	-2.3	0.8	7.9	10.5
	Wholesale, retail trade, restaurants and hotels	1.0	4.2	3.9	2.4
	Transport, storage and communication	3.4	6.5	6.3	4.0
	Other Activities	1.7	2.5	4.1	5.3

Source: Author's calculations based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

The growth performance for individual service segments indicates that there has been a general upward trend in growth across most categories of services over these two decades. The most consistent and the highest growth has tended to be in other services, thereby contributing to the latter's growing importance in services output and in overall GDP. But once again, one finds that India and China generally exhibit much higher growth rates across almost all the service segments, compared to the other BRICS, with China exhibiting double digit growth in most service segments through much of the period. Thus, the two most dynamic economies among the BRICS have experienced more rapid growth in individual service subsectors as well, indicating that overall economic trends are not only reflected at the broad sectoral level but also at the sub-sectoral level. Figure 9 illustrates the trends in the cumulative average growth rate of individual service subsectors for each of the countries during the 1990s and post 2000.

FIGURE 9: CAGR OF SERVICE SUBSECTORS IN THE BRICS, 1990-99 AND 2000-09 (%)



Source: Author's calculations based on UN Statistics http://unstats.un.org/ (accessed on November 29, 2011)

The trends in services output in the BRICS raise interesting questions about the possible driving factors and why India and China stand apart from the others in terms of having experienced much stronger and consistent performance in their service sectors and also within their service sectors. Further, the pattern of growth seen within the service sector, with the significant and often rising share of other services, and the trends in services versus non-services growth, raise interesting questions about the causal relationship between services and the rest of the economy. Some inferences can, however, be drawn at the country level.

The superior performance of transport, storage and communication services in the case of India in the post 2000 period probably reflects the liberalization of telecommunication services and the success of the ICT sector in that country in the last decade (as discussed later). The stronger growth in trade and distribution services, especially in India and China, possibly reflects their stronger overall growth dynamics and growing internal need for such supporting services. Likewise, their superior growth performance in other services may be a reflection of the growing role of social and personal services in these countries, on account of rising incomes and demand for such services, though one would need to see further disaggregation of this category to substantiate this inference. Construction services growth seems to reflect two kinds of driving forces. The first relates to pull factors from the rest of the economy s construction is closely linked to growth dynamics in the industrial sector, which would explain why China has experienced the highest growth in this segment among all the BRICS. The second relates to price and production trends in the mining sector as construction services are closely related to growth dynamics in mining, which would explain why South Africa shows a significant turnaround in this area given the significance of its mining economy. It is also interesting to note that India alone has shown an improvement in growth performance across all service segments, even though within India some segments such as communication services have shown stronger growth than other segments and China has still outperformed India in absolute rates of growth.

PROJECTIONS FOR SERVICES OUTPUT AND DEMAND

Rough estimates were made for services output for the BRICS in 2020 and 2030. As the available data did not permit the use of econometric techniques to forecast future services GDP, a simple method was used. The average 5 year growth rate for services output (for different five year blocs) over the 1991-2009 period was applied to the average value of services output for the 2006-2009 period to obtain the estimated average services output for the 2010-14 period. Assuming that services output would grow at a similar rate between five year periods in future the projected value for 2010-14 was used to arrive at the next projections for 2015-19 and so on till 2030.[22] These projections are constrained by the assumption of a constant growth rate services in future and implicitly assume a similar structure of output within the service sector. Notwithstanding this limitation, these estimates provide some idea of the relative size of the services economy in the BRICS countries.

TABLE 9: PROJECTED VALUE OF SERVICES OUTPUT IN THE BRICS FOR 5 YEAR PERIODS BETWEEN 2010-2030 (MN OF US $ AND %)

	2010-2014	2015-2019	Share of total BRICS output by 2020	2020-2024	2025-2029	Share of total BRICS output by 2030
Brazil	611952	629998	16.8	648577	667704	15.4
Russia	512990	522935	14.0	533074	543409	12.6
Inhdia	655106	708236	18.9	765675	827773	19.1
China	1525823	1693859	45.3	1880401	2087487	48.2
South Africa	180313	186658	5.0	193227	200026	4.6

Source: Author's estimates based on UN statistics, http://unstats.un.org/ (accessed on November 29, 2011)

The projections indicate that China will continue to dominate within the BRICS, accounting for over 40 percent of total BRICS' services output, with its share rising to nearly half by 2030. India will also experience a slight increase in its relative importance among the BRICS in the service sector, while the relative contributions of the other three economies will fall. This outlook is of course based on the assumption of the same five year average growth rates holding in future as in the past, when India and China were the best performers in services output growth among the BRICS. However, if there are significant changes in growth performance or the pattern of services growth, then this asymmetry in contributions need not be as large. But it is evident that considerable asymmetry in size and role within will continue among the BRICS and if one is considering opportunities for meeting services demand in each other's markets or prospects for exports, then China is likely to play an important role within the BRICS grouping, both as a market and as an exporter of services to other BRICS.

22 A second method was also attempted to find the estimated values for projected services output. This involved taking existing estimates for overall GDP for four of the BRICS (excluding South Africa) for 2020 and 2030 based on an earlier study available at http://www.chicagobooth.edu/alumni/clubs/pakistan/docs/next11dream-march%20'07-goldmansachs.pdf (accessed on January 18, 2012) and applying the actual share of services in GDP on the basis of the UN 2009 data to these future values of total GDP from the report to obtain the estimated services output for 2020 and 2030. The assumption made is that services would constitute the same share of GDP in 2020 and 2030 as they did in 2009. These projections do not include South Africa, however, as the earlier study was only for the BRICs.

3.3 Trends in services employment

Along with the growing role of services in the real sector, the contribution of services to employment has also risen in the BRICS, though not to the same degree or in the same manner across all the countries. Excepting India the service sector accounts for over 50 percent of total employment in the BRICS. Trade and distribution services generally account for the bulk of services employment, followed by services such as construction, education and public administration. China tends to have lower shares of employment in most service activities compared to Brazil, Russia and South Africa, possibly reflecting the much larger portion of its labour force which is absorbed by the manufacturing sector (over 25 percent) compared to that in the other BRICS (less than 20 percent). The two services where China has a high share of employment are public administration and education services, which reflect the presence of the public sector and government investment in social services. India is an exception among the BRICS with regard to services employment shares and pattern and the very high share of its total employment which still remains in agriculture. Services constituted less than 30 percent of India's overall employment in 2005, although latest figures indicate that this share has increased to about one-third. But this is still much lower than in the other BRICS. India is also different from the other BRICS with regard to the pattern of its services employment. Segments such as real estate, financial and social services account for a much smaller and often negligible share of employment than in the other BRICS.

Table 10 presents the trends in employment across different sectors and activities for the BRICS economies and highlights these differences.

TABLE 10: SERVICES EMPLOYMENT IN THE BRICS (% SHARES)

	Brazil		China		India	Russia		South Africa	
	2000	2009	2003	2007	2005	2000	2009	2000	2009
Total employment ('000s)	65,623	92,689	109,697	120,244	40,825	65,070	66,995	12,238	13,713
Agriculture, hunting, forestry	17.9	17	4.4	3.5	58.2	14.2	9.5	15.6	5.7
Fishing	0.5	0.4 a/	...	...	0.3	0.3	0.2	....	....
Mining	0.4	0.8	4.5	4.4	0.6	2	1.5	4.9	2.4
Manufacturing	13.3	13.8	27.2	28.8	11.7	18.7	15.6	12.9	14.3
Electricity, gas and water supply	0.5	0.4 b/	2.7	2.5	0.3	2.6	2.80	0.8	0.7
Construction	7	7.4	7.6	8.7	5.6	5.1	7.90	5.6	8.3
Wholesaleand retail trade	16.6	17.8	5.7	4.2	9	12.1	17.7	20.2	22.9
Hotels and restaurants	4.7	3.90	1.6	1.50	1.3	1.40	1.8	....	....
Transport, storage and communication	5.1	4.80	5.8	5.20	3.8	8.40	7.9	4.80	5.6
Financial intermediaries	1.3	7.7	3.2	3.2	0.6	1.3	1.7	8	12
Real estate, renting and business activities	5.7	6.1 c/	4.8	5.5	0.9	3.1	7.7	....	....
Public administration	5.4	5.1	10.7	10.7	1.8	7.4	5.7	17	19.1
Education	5.8	9.4	13.2	12.6	2.4	9.1	8.9	....	....

Health and social work	3.3	3.7d/	4.4	4.5	0.8	6.7	7	....	....
Community, personal and social services	3.6	4.2	1.2	1	1.8	7.4	3.9	....	....
Activities of privatehouseholds	7.6	7.8	....	....	1	0	....	9.4	9

Source: ILO Statistics, Key Indicators of the Labour Market (Table 4c. Employment by 1-digit sector level (ISIC- Rev.3, 1990; by sex)) (Accessed on: October 20, 2011) http://laborsta.ilo.org/
Note: The years for which employment data are available for the 5 countries vary.
a/ data as per year 2007 as 2009 not reported
b/ data as per year 2007 as 2009 not reported
c/ data as per year 2007 as 2009 not reported
d/ data as per year 2007 as 2009 not reported

The trends in services employment, when juxtaposed with the trends in services output discussed earlier and the anomalies in these trends across the BRICS, may be on account of several reasons. First, the fact that services employment is not that significant in India despite the very high growth in India's overall services output and output in several service segments may in part reflect problems in capturing employment in activities such as real estate, distribution, personal and community services, which tend to be highly unorganized and fragmented in nature. But such data limitations are not likely to be particular to India alone.

A second possible explanation relates to differences in labour productivity across the BRICS. Russia, South Africa and Brazil have on average experienced lower growth in their services output but have a higher share of employment in services which would imply that these countries have had growth in labour productivity in their service sectors. In contrast, growth in labour productivity in services appears to have been higher for India and China where services output has grown more rapidly but employment shares are lower.

A third and related explanation concerns the pattern of services growth and its employment intensity. One might infer that services which have grown more rapidly in India for instance (e.g., communication services), may have had low employment elasticity compared to those activities which have shown higher growth in other BRICS countries, even if growth in the latter has been more moderate. It is, however, difficult to substantiate this argument unless one has more uniformly disaggregated statistics on output and employment for different service activities for all the BRICS countries in order to draw inferences about the relative employment intensities of their service sector.

A fourth and final inference that can be drawn from the services employment data pertains to overall employment opportunities in these countries. To some extent, employment growth in activities such as personal and community services, household activities, or trade and distribution services could reflect growing opportunities in these areas. However, it could also reflect absorption of labour into self-employed and low productivity service activities for want of better employment opportunities in other parts of the economy. In the case of countries such as South Africa, where unemployment is a major concern, the high contribution of informal, personalized service activities may actually reflect underemployment and unemployment related pressures.

It is also important to note that demographics are likely to play an important role in determining the growth and competitiveness of the service sector in labour-intensive subsectors and will also affect the pattern of demand for services in future. While Brazil and India will experience continued growth in their population over the 2010-30 period, from 195 million to 227 million and from 1.2 billion to 1.6 billion, respectively, Russia will experience a marginal increase in its population from 134 million to 140 million over this period and China's population will actually decline from 1.4 billion in 2010 to 1.39 billion in 2020 declining further to 1.32 billion in 2030.[23] In terms of the working age population, Russia and China will experience a decline while Brazil and India will witness an increase with India's being the most significant. South Africa will continue to remain a small player among the BRICS in terms of the size of its population and labour force. Contingent on labour force participation rates and the share of services within the labour force, as well as skill and productivity issues, these trends would broadly suggest that competitiveness based on labour costs may not remain in future for countries like China while others such as India could retain their labour cost advantage in services. Moreover, ageing populations would also result in shifting patterns of demand for services, such as for health services which could create new opportunities in the service sector.

Based on the estimated labour force for the BRICS and the share of the labour force occupied in the service sector (using the shares for the latest years available for each country), employment in the service sector for each of these countries has been provided for the 2010 to 2020 period.

TABLE 11 PROJECTED LABOUR FORCE IN SERVICES, SELECTED YEARS (MNS)

	2010	2015	2020
Brazil	67.0569	71.9864	76.4302
Russia	44.2633	43.7636	42.3356
India	160.6772	175.4922	189.3248
China	273.3415	280.8035	281.1915
South Africa	11.6529	12.4535	13.2184

Source: ILO Statistics, Key Indicators of the Labour Market (Table 4c. Employment by 1-digit sector level, (ISIC- Rev.3, 1990; by sex), (Accessed on: October 20, 2011) http://laborsta.ilo.org/ and https://www.cia.gov/ (accessed on November 29, 2011)

As is evident, services employment will increase only marginally in China and South Africa over the 2010-20 period and will actually decline in Russia over this period. India will be the main contributor to services employment among the BRICS. These estimates are of course subject to numerous limitations, in that they assume that the share of services in the labour force from earlier years will continue to apply in the future and that employment opportunities will indeed be created in line with the changes in the labour force. Moreover, these estimates do not account for possible shifts in employment between the formal and informal sectors. Nevertheless, these projected values suggest that there may be scope for greater engagement among the BRICS arising from demographic complementarities with some facing ageing populations and others continuing to retain their labour cost advantage.

Overall, one can infer from the output and employment trends in services that the BRICS cannot be treated as a homogeneous group. While at the broader level all of them have experienced a growing contribution of services to their economies and their service growth trajectories show an upward trend, they differ from one another in terms of the intensity, pattern and consistency of these trends and the interdependence between their service sectors and the rest of their economies. India and China generally fall into one subgroup and the rest of the BRICS into another. Hence, there are clearly country-specific drivers which have shaped their service sectors.

23 *UN Population database, http://esa.un.org/unpd/wpp/unpp/panel_population.htm (accessed on January 10, 2012)*

4. Services Trade and the BRICS

The BRICS are important because of their growing presence in global trade. However, the role played by the service sector in this integration is not well understood. The following discussion examines this issue. It also assesses the extent to which the BRICS differ in their services growth trends, pattern of services trade flows, competitiveness across different services, and contribution to global services trade.

As in the case of services output, there is considerable variation in the absolute level of exports and imports of services among the BRICS. In 2010, services exports ranged from a low of $14 billion for South Africa to $158 billion for China while services imports similarly ranged from $18 billion for South Africa to $182 billion for China. India also commands a very high level of services exports and imports at over $100 billion while Brazil and Russia have significantly lower levels of services trade compared to both India and China. It is interesting to note that the total value of services exports for Brazil, Russia and South Africa combined was less than India's as well as China's services exports. India and China together accounted for 75 percent of the total services exports by the BRICS in 2010 with India accounting for 32 percent and China for 43 percent of total BRICS services exports that year. The other countries had shares of less than 10 percent. The higher weight of India and China within BRICS services exports compared to that for BRICS services output (shown earlier to be around 50 percent), indicates a relatively higher export orientation for their service sectors.

In the case of services imports, a similar picture emerges but the asymmetry is not as sharp. Although China and India again have very high levels of services imports at over $100 billion in 2010, Brazil and Russia have over $60 billion and $70 billion in services imports, respectively. South Africa is again much smaller in comparison to the others. Overall, China and India together accounted for around 65 percent of BRICS' services imports in 2010, Brazil and Russia had shares of 14 and 16 percent, respectively, and South Africa accounted for less than 5 percent.[24]

Table 12 shows the trends in value of services exports and imports for the BRICS over the 1995-2010 period. It illustrates that China and India are the two big players among the BRICS for both services exports and imports, while Russia and Brazil show a greater reliance on services imports compared to exports, and South Africa remains a very small player in both respects. This suggests possible differences among them in terms of service sector competencies and orientation and thus possibilities for complementarities in services trade, depending on the composition of their services trade baskets (to be discussed later). The data also highlight that there has been a spurt in services trade in the post 2000 period with much larger increases in both services exports and imports for all the countries after 2000. The increase in absolute terms is particularly striking for India, whose services exports trebled between 2000 and 2005 and again doubled between 2005 and 2010, possibly reflecting rapid growth in certain segments. Services imports have increased three to five times for all the countries, over the 2000 and 2010 period, possibly reflecting trends in services liberalization, growing tradability of some services, and rising demand for services accompanying economic growth.

24 Based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011). See Table 12.

TABLE 12: VALUE OF SERVICES EXPORTS AND IMPORTS (MNS OF US $S)

ECONOMY	Exports				Imports			
	1995	2000	2005	2010	1995	2000	2005	2010
Brazil	6135	9498	16048	32837	13630	16660	24356	62892
Russia	10567	9565	24970	44476	20205	16230	38745	72270
India	6775	16685	52527	116320	10268	19188	47287	108593
China	19130	30431	74404	158170	25223	36031	83796	182642
South Africa	4619	5046	11300	14004	5971	5823	12125	18456
World	1227551	1529337	2564296	3745437	1259401	1538365	2465975	3560100

Source: UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

The trade balance in services for the BRICS economies further indicates that in the post 2000 period, excepting India, all the BRICS have a deficit in services trade and that this deficit has risen over the decade. In contrast, India has a small services trade surplus, which has grown over the decade. Such differences in the role of services in the trade balance across the BRICS again suggest differences in growth drivers, competencies, and patterns of service trade flows.

TABLE 13: TRADE BALANCE FOR SERVICES (MNS OF US$S)

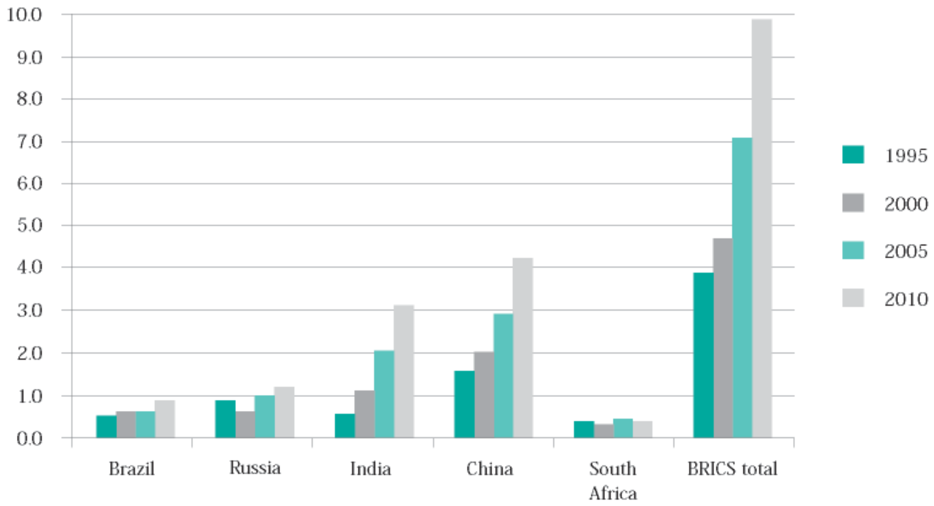
ECONOMY	1995	2000	2005	2010
Brazil	-7495	-7162.05	-8308.6	-30055.4
Russia	-9638.1	-6665.13	-13774.9	-27794
India	-3493.08	-2502.9	5240.8	7727
China	-6092.5	-5600.1	-9391.4	-24472
South Africa	-1352.04	-777.15	-825.3	-4452.9
World	-31850	-9028	98321	185337

Source: Author's calculations based on UNCTAD Statistics, http://unctadstat.unctad.org/ (accessed on Nov 29, 2011)

4.1 Examining trends in services exports

The contribution of the BRICS to global services exports has grown very much along the lines of their contribution to global services output as well as global trade. As shown in Figure 10, the share of the BRICS in world services exports has more than doubled from less than 4 percent in 1995 to nearly 10 percent in 2010. However, it is India and China which have steadily increased their contribution to world services exports over this period, trebling in the case of India and doubling in the case of China between 2000 and 2010. In contrast, South Africa has seen no change in its share of world services exports over this period while the shares of Brazil and Russia have increased only marginally.

FIGURE 10: SHARE OF BRICS IN WORLD SERVICES EXPORTS (%)



Source: UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

The difference among the BRICS in terms of their relative export orientation in services is also evident if one considers their reliance on services exports. The share of services in total exports has remained at around 12 percent through the 1995-2010 period, indicating that services have not played a growing role in terms of their trade flows and their engagement with world markets.[25] For the individual economies, excepting India, the contribution of services to total exports was quite small, in the range of 10 to 14 percent in 2010 and has remained roughly the same through this period. India's case is very different in that the share of services in its total exports have risen significantly, from 18 percent in 1995 to 28 percent in 2000 and stood at 35 percent in 2010. So, not only has the increase been steep, but the share has also become significant at over 30 percent. It has been projected that services could account for as much as half of total exports from India by 2015. Table 14 illustrates the contribution of services to the export basket for all the BRICS.

TABLE 14: SERVICES EXPORTS AS A SHARE OF TOTAL EXPORTS OF MERCHANDISE AND SERVICES

	1995	2000	2005	2010
Brazil	11.65	14.70	11.92	13.99
Russia	11.30	8.31	9.29	10.01
India	18.11	28.25	34.52	34.91
China	11.39	10.88	8.90	9.11
South Africa	13.43	13.64	16.73	14.03
BRICS	12.24	12.82	12.28	12.84

Source: UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

25 *Based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011). See Table 14.*

This difference in the extent of dependence on services exports could imply lack of export opportunities in services or could suggest relatively slower growth of services exports compared to merchandise exports and therefore a constant or declining share in the export basket. The data on average growth rates for services exports presented in Table 15 indicate that India has experienced very rapid growth in its services exports, thereby raising the overall contribution of services to its export basket. However, China, which too has experienced very high growth rates for services exports, has clearly experienced even higher growth rates in its merchandise exports, thereby resulting in a lower share of services in China's export basket notwithstanding such high growth in services exports. For the other BRICS, services export growth has picked up in the post 2000 period but has been roughly comparable to that for merchandise exports, thereby resulting in a roughly similar share of services in their export baskets.

TABLE 15: AVERAGE ANNUAL GROWTH RATES AND CAGR (%) FOR SERVICES EXPORTS BY THE BRICS

	5-Year Average			CAGR	
	1995-1999	2000-2004	2005-2009	1995-2002	2003-2010
Brazil	10.23	12.51	18.01	-28.19	10.13
Russia	3.66	18.06	16.78	-1.90	-11.90
India	19.47	22.83	20.29	0.18	3.24
China	9.83	19.18	16.82	3.51	3.31
South Africa	7.18	16.41	4.44	-25.72	-18.54

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

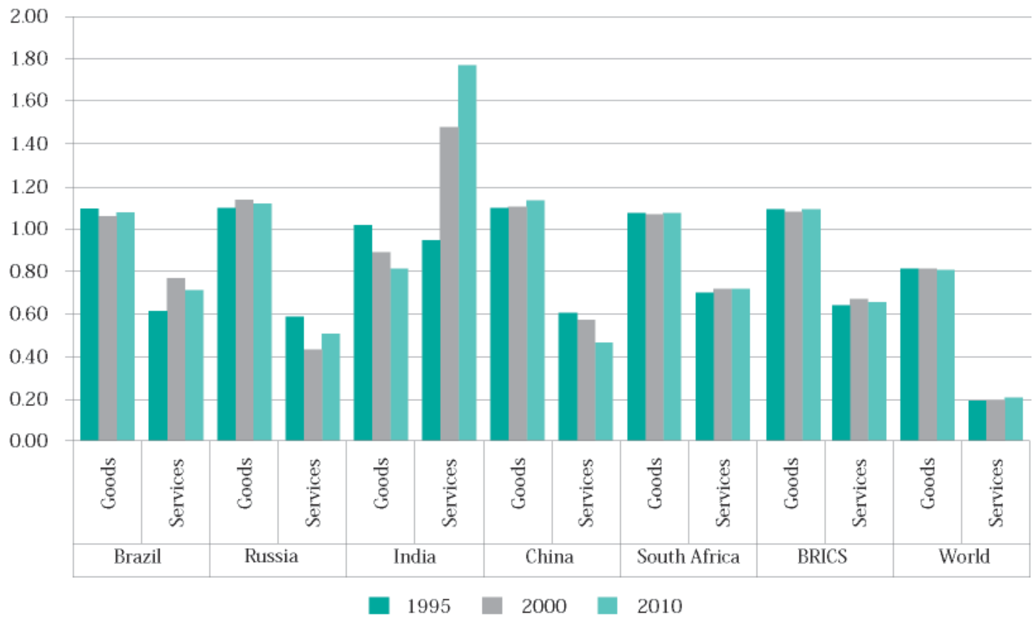
The year-on-year services export performance for the BRICS shown in Figure 11 similarly highlights the superior performance exhibited by India. The spurt in the 2001-2004 period, most likely reflects the takeoff in IT services exports in the last decade. It is worth noting, however, that most of the countries have shown an upward trend in their services exports in the last decade and that all of them were severely hit by the 2008-2009 global financial crisis, with exports plummeting in 2009 and recovering in 2010. Hence, although the countries differ with regard to their relative competitiveness across different sectors of their economies, their sources of competitiveness, their dependence on services exports, and the extent to which they are integrated with world services trade, they seem to be equally susceptible to the fluctuations in the world economy and there is a broad convergence among them in their growth trajectories for services exports.

Overall, the data presented above on services export trends and contribution of services to exports suggest that India's service sector shows a much stronger dynamism compared to other sectors of its economy and has become more competitive over the concerned period while China's dynamism is more broad-based and its competitiveness in industry not only exceeds that in services but has also risen relative to that in services. The remaining BRICS do not reveal any particular changes in the relative competitiveness of their goods or services sectors. These inferences are corroborated by the estimates for revealed comparative advantage for all the countries as shown in Figure 12 and Figure 13a to 13e.

FIGURE 11: GROWTH IN SERVICES EXPORTS, 2001-10 (%)

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

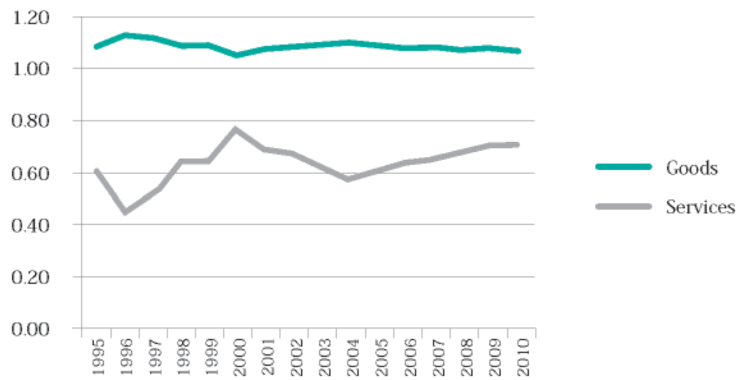
FIGURE 12: RCA FOR GOODS AND SERVICES FOR THE BRICS, 1995, 2000, 2010



Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

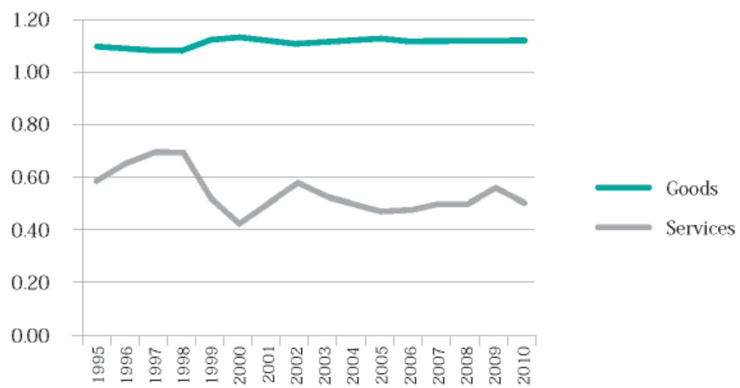
The Revealed Comparative Advantage (RCA) estimates for goods and services indicate that overall, the BRICS are more competitive in goods (with RCA of about 1) than in services (with RCAs below 1) and as a group, there has been virtually no change in their revealed comparative advantage over the 1995-2010 period. Within the group, it is interesting to note that only India has significantly improved its competitiveness in services (as was also highlighted earlier) with much higher RCAs than all the other BRICS in the 2000-2010 period. Its RCA in goods has meanwhile declined, which would explain the growing share of services in its export basket. All the other BRICS have RCAs of less than 1 in services (even lower than 0.5 in some cases) and RCAs greater than 1 for goods. Hence, while services constitute a significant part of total output of these countries, the estimates for RCAs and the data on services contribution to exports indicate that excepting the case of India, services growth is more internally driven for the BRICS. Figures 13a to 13f show the trends in goods and services RCAs for each of the BRICS and for the group as a whole.

FIGURE 13A RCA FOR GOODS AND SERVICES FOR BRAZIL, 1995-2010



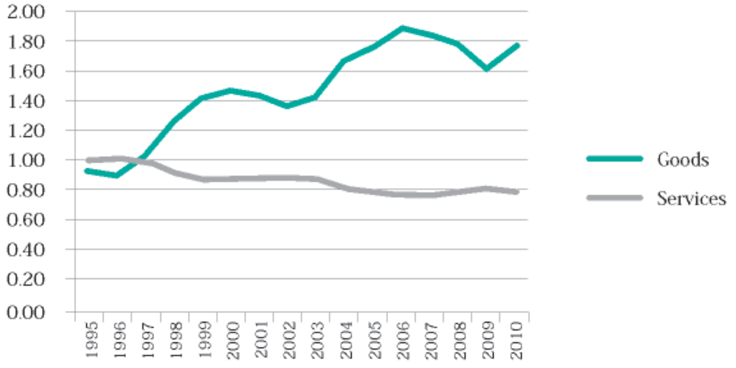
Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

FIGURE 13B RCA FOR GOODS AND SERVICES FOR RUSSIA, 1995-2010



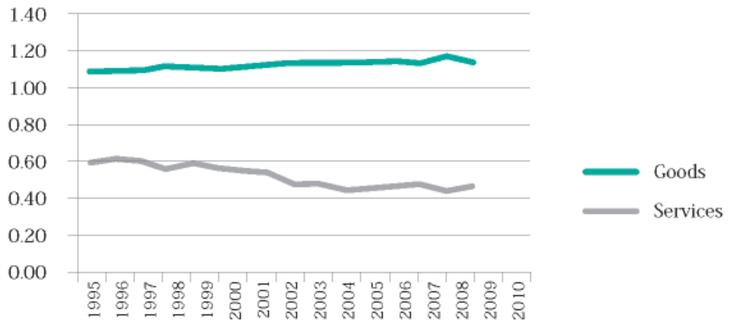
Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

FIGURE 13C RCA FOR GOODS AND SERVICES FOR INDIA, 1995-2010



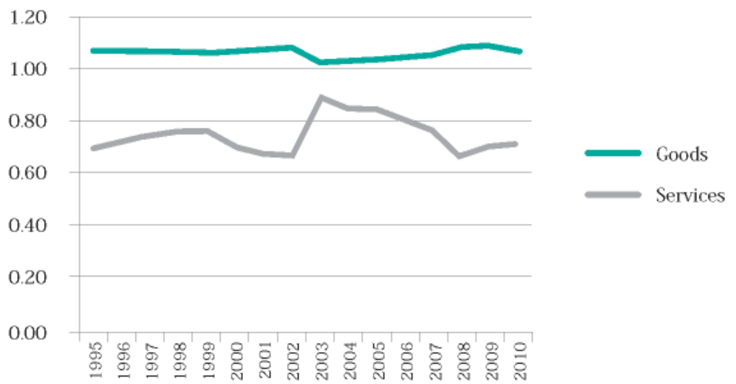
Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

FIGURE 13D RCA FOR GOODS AND SERVICES FOR CHINA, 1995-2010



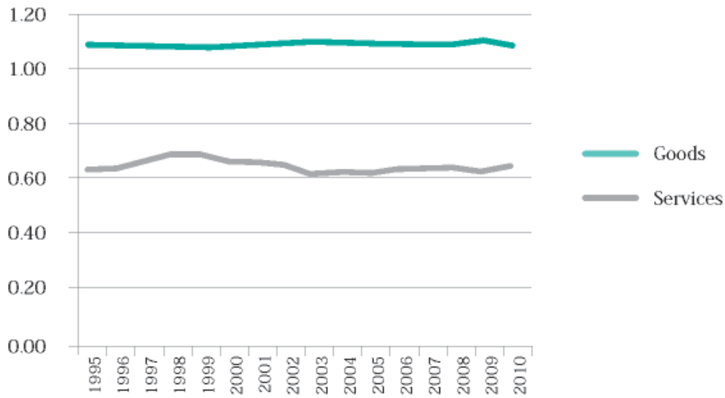
Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

FIGURE 13E RCA FOR GOODS AND SERVICES FOR SOUTH AFRICA, 1995-2010



Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

FIGURE 13F RCA FOR GOODS AND SERVICES FOR THE BRICS, 1995-2010



Source: Author's calculations based on UNCTAD database, http://unctadstat.unctaorg/ (accessed on November 29, 2011)

So the BRICS as a whole have not witnessed much change in either their goods or services RCAs, which reflects similar RCA trends over this period for all the countries, except India. The latter stands apart from the rest of the BRICS as its service sector is much more export oriented and competitive. It is also the only country in this group to see an increase in its RCA for services and a decline in the competitiveness of its merchandise exports. Thus, there is potentially some broad sectoral complementarity (goods versus services) between India and the other BRICS. However, the extent of complementarity within services requires one to examine the composition of their services exports.

Table 16 shows the change in sectoral composition of services exports for the BRICS. The data presented indicate that there are both similarities and differences in the pattern of their services exports. All the BRICS, save South Africa exhibit a very high share of services other than transport and travel (termed "other services") in their total services exports. This share ranges from around 50 percent for Russia and China to two-thirds for Brazil and to over 70 percent for India in 2010. In contrast, only 25 percent of South Africa's services exports comprise of "other services." Its dominant service export is travel and tourism services with a share of over 60 percent. None of the other BRICS exhibit such a high contribution of travel services, although in all cases travel services constitute a significant share of total services exports (around 20 percent in all the other countries excepting India) implying that this is an area of interest for all the BRICS, within the service sector. Construction services also vary considerably in importance from less than 1 percent in the case of Brazil, India and South Africa to over 7 percent in the case of Russia and China.

Complementarities are also indicated within the "other services" segment. Although these account for a large share of the services export basket for Brazil, Russia, India and China, there are differences in the composition of exports within this segment. For instance, while computer and information services constitute more than half of "other services" exports for India and have almost doubled in share between 2000 and 2010, their share in the services export basket of the other BRICS is 5 percent or less. In contrast, other business services account for half of Brazil's total services exports and are also significant for Russia and China at over 25 percent of their services exports. Available information on the disaggregated nature of other services exports for Brazil indicates the growing contribution of architectural, engineering and design services, mainly driven by the internationalization of Brazilian firms and their increased demand for supporting business services. However, in the absence of bilateral trade data at a disaggregated level for "other business services," it is difficult to assess the extent of potential complementarity among the BRICS.[26] It is also interesting to note that some services such as finance, insurance and communication services, which have grown rapidly and have increased their contribution to GDP, still account for a very small share of the BRICS' services exports, indicating that their growth is primarily inward oriented.

TABLE 16: SHARE OF DIFFERENT SERVICE SUBSECTORS IN TOTAL SERVICES EXPORTS OF BRICS (%), 2000 AND 2010

	Brazil		Russia		India		China		South Africa	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Transport	14.8	15.5	37.2	33.6	11.9	10.7	12.1	20.0	23.4	11.5
Travel	19.1	18.6	35.9	20.2	20.7	11.4	53.3	26.8	53.0	64.9
Communications	0.4	1.4	4.0	3.0	3.6	1.1	4.4	0.7	1.1	1.6
Construction	2.4	0.1	1.8	5.9	3.0	0.4	2.0	8.5	..	0.4
Insurance	3.3	1.3	0.4	1.0	1.5	1.4	0.4	1.0	8.9	1.9
Financial services	4.0	6.5	1.0	2.4	1.7	4.9	0.3	0.8	..	5.9
Computer and information	0.4	0.7	0.6	3.1	28.3	45.8	1.2	5.4	..	2.1
Royalties and licence fees	1.3	1.2	1.0	1.4	0.5	0.1	0.3	0.5	1.0	0.4
Other business services	48.1	49.6	18.2	27.1	24.9	23.4	25.2	35.8	9.4	8.0
Personal, cultural and recreational services	0.7	0.3	..	1.1	..	0.3	0.0	0.1	..	0.5
Government services n.i.e.	5.7	4.8	..	1.2	3.9	0.4	0.9	0.6	3.1	2.8

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on December 5, 2011)
Note: Cells shaded in grey are for those cases where there has been a large increase in the share of that service in the country's total services exports or where the share remains significant (over 20 percent) in both 2000 and 2010. These are meant to highlight services where countries appear to be competitive and also to indicate possible complementarities in export interests among the BRICS in the service sector.

Overall, the general pattern that emerges is that traditional services exports (transport and travel services) have declined in importance for all the BRICS except South Africa and this decline has been most significant for India. Russia and China have a more balanced distribution between traditional and other services exports. The differences in the composition of services exports across the BRICS combined with the observed trends in RCAs indicate scope for trade and cooperation among them in both traditional and emerging services. The services where such opportunities are indicated include travel, transport, computer and information services, construction, and other business services. There is little overlap in their areas of strength. However, in the absence of data on bilateral trade in services among the BRICS, only inferences can be drawn regarding potential opportunity segments for engagement among these countries.

26 *Bilateral trade data for Brazil indicates that other commercial services exports consisting mainly of business, professional and technical services, were mainly directed at the regional, Latin American market followed by the US and the EU. There was little export to other BRICS countries.*

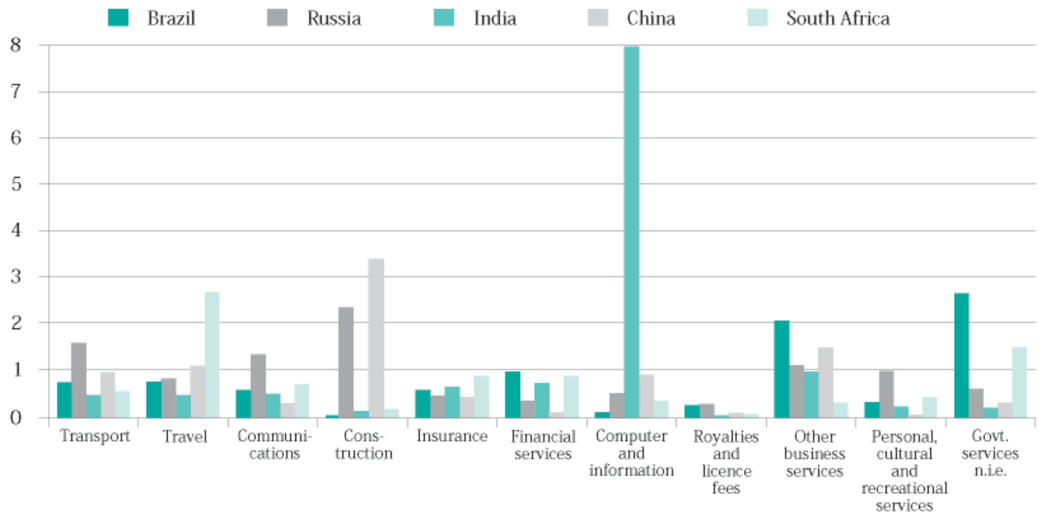
TABLE 17: SHARE OF THE BRICS IN WORLD SERVICES EXPORTS, 2000, 2010 (%)

	Brazil		Russia		India		China		South Africa	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Total services	0.61	0.85	0.62	1.18	1.08	3.29	1.97	4.56	0.33	0.37
Transport	0.40	0.64	1.02	1.94	0.57	1.72	1.05	4.45	0.34	0.21
Travel	0.39	0.65	0.73	0.99	0.74	1.56	3.47	5.05	0.57	1.00
Other services	0.88	1.04	0.36	1.02	1.57	4.78	1.47	4.53	0.17	0.16
Communications	0.11	0.51	1.19	1.60	1.85	1.67	4.16	1.44	0.18	0.26
Construction	0.76	0.03	0.57	2.80	1.68	0.56	2.02	15.46	..	0.07
Insurance	1.11	0.51	0.12	0.57	0.92	2.18	0.38	2.11	1.61	0.33
Financial services	0.37	0.84	0.10	0.43	0.27	2.43	0.08	0.54	..	0.33
Computer and information	0.08	0.10	0.14	0.63	10.88	26.14	0.82	4.27	..	0.13
Royalties and licence fees	0.16	0.20	0.11	0.31	0.10	0.06	0.10	0.41	0.06	0.03
Other business services	1.34	1.76	0.51	1.34	1.22	3.23	2.24	6.83	0.14	0.12
Personal, cultural and recreational services	0.30	0.27	..	1.19	..	0.84	0.05	0.31	..	0.17
Government services n.i.e.	1.33	2.25	..	0.76	1.62	0.71	0.71	1.40	0.39	0.57
Memo item: Commercial services	0.62	0.91	..	1.32	1.11	3.71	2.09	5.12	0.34	0.41

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on December 5, 2011)
Note: Cells in grey indicate those services where the country has a significant share in absolute terms (over 10 percent) or in relative terms (compared to the other BRICS) in world services exports, or where there has been a noteworthy increase.

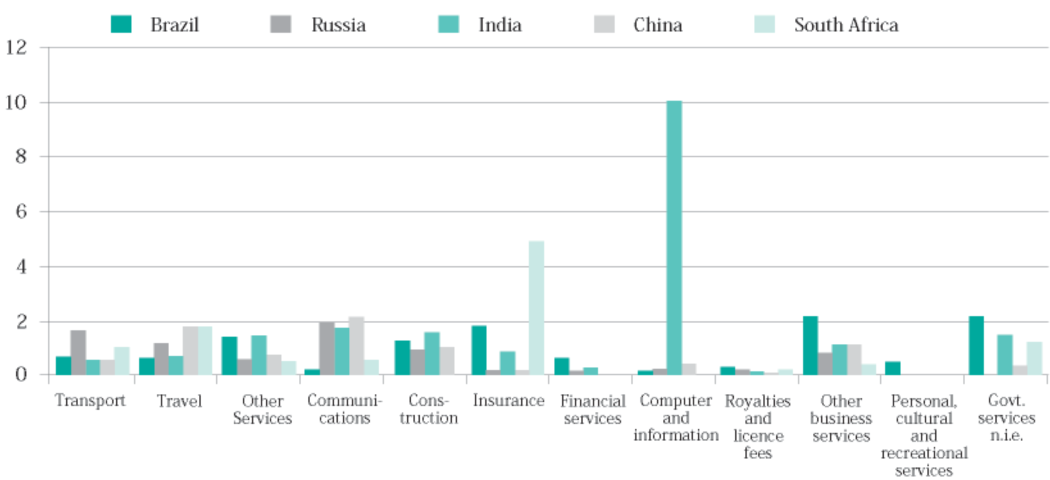
Figures 14A and 14B which show the RCAs for each of the countries in specific services also confirm that the BRICS differ with regard to their different areas of competitiveness within the service sector. India shows very high potential in computer and information services, South Africa and China show competitiveness in travel services, Russia in transport services, China and Russia in construction services, and Brazil and China in other business services. There is also a general downward trend in the RCAs for all the countries across most services as well as a clear divergence across the countries with regard to their relative RCAs in different services over the 2000-2010 period. From a clustering of countries in individual services around broadly similar levels of RCAs, the countries have moved apart in certain services such as construction, travel and transport services. At the same time, there is some convergence evident in some other areas such as computer and information services and other business services. These are indicative of services which need to be examined further as areas for expanding commercial relations and cooperation among the BRICS. There appear to be relatively few areas of competition and more areas of complementarity.

FIGURE 14A: RCA OF THE BRICS IN SERVICE SUBSECTORS, 2010



Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on December 5, 2011)

FIGURE 14B: RCA OF THE BRICS IN SERVICE SUBSECTORS, 2000

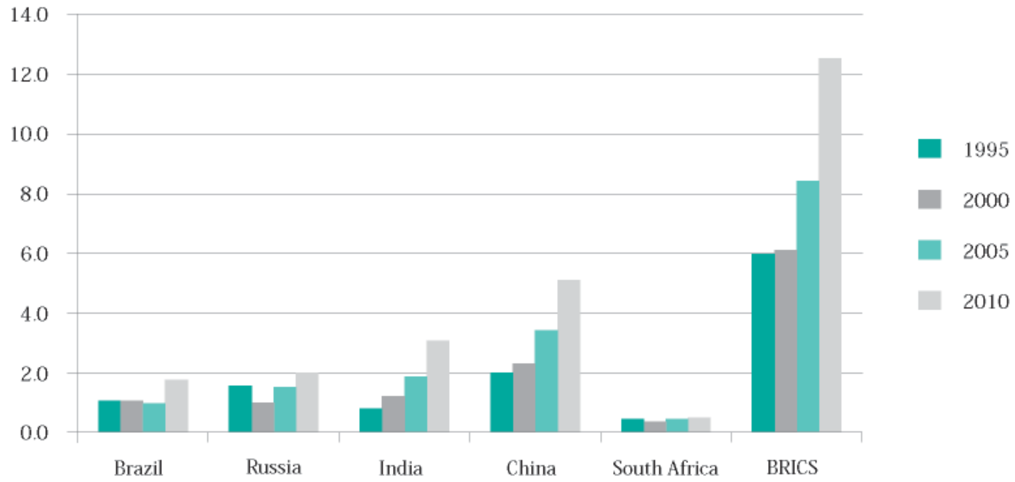


Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on December 5, 2011)

4.2 Examining trends in services imports

As with services exports, the BRICS have become integrated with the world economy through services imports. The share of the BRICS in world services imports has doubled from 6 percent in 1995 to over 12 percent in 2010. However, as with services exports, this increase is mainly due to the more than doubled shares of India and China in global services imports. Among the other BRICS, Brazil and Russia have increased their shares of world services imports only marginally between 2005 and 2010 while South Africa's share has remained stagnant.

FIGURE 15 SHARE OF THE BRICS IN WORLD SERVICES IMPORTS (%)



Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

It is thus evident that there is asymmetry across the BRICS with regard to their importance in global services trade (exports and imports) and their trends in services trade have not been equally strong. However, this asymmetry in trends also suggests that there is possible scope for the BRICS to engage in services trade with each other. In order to assess the areas where this scope exists, one needs to examine the trends in services imports and to place the composition of their services imports against the structure of their services exports highlighted earlier.

TABLE 18: SHARE OF SERVICES IMPORTS IN TOTAL IMPORTS OF GOODS AND SERVICES

	1995	2000	2005	2010
Brazil	21.49	23.59	25.43	26.31
Russia	24.18	26.42	23.38	22.33
India	24.33	28.82	26.46	26.73
China	17.19	14.82	12.12	12.46
South Africa	17.33	17.32	17.01	20.72
BRICS	20.33	19.76	17.17	17.63

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

The data on contribution of services to total imports of the BRICS countries indicates that there has been little change over the 1995-2010 period. For the BRICS as a whole, the share of services in their total imports has in fact declined, mainly due to the steady decline in this share for China and the latter's large weight among the BRICS. Brazil and South Africa have on the other hand experienced a slight increase in the contribution of services to their total imports.

The average growth rates for services imports, however, indicates that almost all the BRICS have seen a considerably increase in their services imports, especially in the last decade. The fact that this growth is not reflected in a significantly higher contribution of services to their import basket only reflects the fact that their other imports have grown even more rapidly.

TABLE 19: AVERAGE ANNUAL GROWTH RATES AND CAGR (%) FOR SERVICES IMPORTS BY THE BRICS

	5-YearAverages			CAGR	
	1995-99	2000-2004	2005-2009	1995-2002	2003-2010
Brazil	8.10	4.65	22.96	0.90	22.29
Russia	-1.22	20.14	14.65	2.45	15.03
India	16.21	16.41	18.77	10.79	23.43
China	16.39	18.17	17.54	9.14	18.61
South Africa	2.82	14.14	8.16	-1.16	12.59

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

The annual trends in services imports for the BRICS as shown in Figure 16 highlight the general upward trajectory in the growth of services imports for all these countries, except South Africa. There is much greater uniformity among them in the case of services imports than for services exports, probably reflecting growth dynamics and liberalization trends in all these countries which have contributed to increased services imports, as also highlighted earlier. The impact of the recent global financial crisis has been severe for all the BRICS, indicating the fact that services imports are closely tied to their overall economic performance, which is in turn linked to the world economy.

FIGURE 16 : YEAR-WISE GROWTH IN SERVICES IMPORTS FOR THE BRICS, 2001-2010 (%)

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011)

The pickup in the growth of services imports for the BRICS along with the growing role of services in their exports, the pickup in services export growth for some of the BRICS, and differences among them in their areas of export competitiveness within the service sector suggest that there is some scope for expanding intra BRICS services trade. This is also indicated by the composition of services imports among the BRICS. Traditional services such as transport and travel services constitute over 50 percent of total services imports for all the countries. Travel services are one segment which accounts for over 20 percent of total imports in almost all the countries. As shown earlier, this is also an important export segment for some of the BRICS and thus it is clearly one area for expanding intra BRICS trade. Another segment of potential interest is transport services which accounts for over 40 percent of services imports in some of the BRICS (India, South Africa, Russia) and is also important in services exports of some other BRICS (China, Russia). Other business services are an important part of total services imports for all the BRICS (except South Africa) and is another potential area for expanding trade and cooperation as it constitutes a large share of services exports for all the countries (excepting South Africa). It is also worth noting that some of the BRICS have both export and import interests in certain segments such as travel and other business services.

TABLE 20: COMPOSITION OF SERVICES IMPORTS IN THE BRICS, 2000 AND 2010 (%)

	Brazil		Russia		India		China		South Africa	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Transport	25.8	18.1	14.4	16.4	45.4	39.7	28.9	32.7	41.9	38.4
Travel	23.4	26.2	54.5	36.1	14.0	9.1	36.4	28.4	35.8	30.3
Communications	0.2	0.4	1.8	2.9	0.5	1.0	0.7	0.6	1.4	2.2
Construction	0.0	0.0	2.5	6.9	0.7	0.8	2.8	2.6	..	0.0
Insurance	1.9	2.4	2.5	1.4	4.2	4.3	6.9	8.1	6.5	2.9
Financial services	4.0	2.7	0.2	2.3	6.7	5.8	0.3	0.7	..	0.7
Computer and information	6.9	5.6	2.9	2.6	3.0	2.2	0.7	1.5	..	1.0
Royalties and licence fees	8.5	4.6	0.4	6.9	1.5	2.1	3.6	6.7	4.2	10.5
Other business services	20.6	33.3	20.7	20.4	22.5	34.0	19.3	17.7	7.2	11.6
Personal, cultural and recreational services	2.2	2.0	..	1.4	..	0.4	0.1	0.2	..	0.1
Government services n.i.e.	6.5	4.6	..	2.8	1.5	0.6	0.5	0.6	2.8	2.3

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on December 5, 2011)

Note: Grey cells indicate those services which account for a large (over 20 percent) or growing share of services imports. This share is only chosen on an indicative basis.

Trends in the significance of the BRICS in global services imports as shown in Table 21 similarly highlight that the BRICS, in particular India and China, have become increasingly important (i.e., with shares of over 2.5 percent in world services imports) across several service segments. These include travel, construction, computer and information, financial, insurance, royalties and licenses, and other business services. However, as shown earlier, in several of these services (e.g., finance, insurance, royalties and licenses), the BRICS are not major exporters in the world market and nor do these account for a significant share of their services exports. Hence, although there are several segments where services imports have grown for the BRICS, one can infer that these imports are from other countries and not from each other. But in segments such as travel, transport, and computer and information services, there are potential synergies among some of the BRICS as these not only constitute a significant share in the services exports of certain BRICS but are also a growing share of their services imports and in terms of their presence as service importers in the world market.

TABLE 21: SHARE OF BRICS IN WORLD SERVICES IMPORTS, 2000 AND 2010 (%)

	Brazil		Russia		India		China		South Africa	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Total services	1.08	1.76	1.05	2.06	1.24	3.28	2.33	5.42	0.38	0.52
Transport	1.23	1.28	0.67	1.36	2.49	5.23	2.97	7.13	0.70	0.80
Travel	0.83	2.02	1.89	3.26	0.58	1.31	2.80	6.75	0.45	0.69
Other services	1.18	2.04	0.71	2.05	1.09	3.50	1.75	4.40	0.18	0.34
Communications	0.10	0.36	0.89	2.75	0.32	1.56	0.75	1.49	0.26	0.52
Construction	0.00	0.01	1.36	8.64	0.43	1.68	3.33	8.59	..	0.01
Insurance	1.13	0.96	1.47	0.65	2.90	3.14	8.81	9.89	1.36	0.33
Financial services	0.66	1.54	0.04	1.58	1.27	6.24	0.10	1.27	..	0.12
Computer and information	2.64	3.61	1.09	1.94	1.33	2.60	0.61	3.05	..	0.19
Royalties and licence fees	1.78	1.30	0.09	2.32	0.36	1.11	1.61	5.96	0.31	0.89
Other business services	1.01	2.64	0.99	1.90	1.27	5.02	2.04	4.34	0.12	0.27
Personal, cultural and recreational services	1.74	3.63	..	2.86	..	1.33	0.18	1.06	..	0.04
Government services n.i.e.	2.70	2.72	..	1.94	0.72	0.66	0.43	1.08	0.41	0.41
Memo item: Commercial services	1.08	1.91	..	2.29	1.31	3.72	2.49	6.16	0.39	0.58

Source: Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on December 5, 2011)
Note: Grey cells are for services where the BRICS account for 2.5 percent or more of world services imports. This benchmark share is only indicative

If one juxtaposes the data presented above for services imports and services exports, then one finds that there is scope for intra BRICS engagement in both traditional and emerging services. Travel and tourism shows promise as do other business services and professional services, such as in IT consulting and software services.[27] Although quality information regarding the opportunities for intra BRICS engagement is limited, a few reports highlight specific areas of opportunity, especially within business and professional services. For instance, the Consultancy Development Centre in one of its reports on India's potential for consultancy exports to Latin America highlights opportunities in areas such as management consulting, engineering consulting, and IT/other services for Indian firms in the Brazilian market.[28] Some thrust areas identified in this report include software development; BPO and KPO in Portuguese in IT services (through R&D and joint ventures); prospecting, exploration and production in the area of engineering consultancy services (for the oil and gas industry through joint ventures); IT support and consultancy services for the banking and financial services industry (through strategic alliances); design of aircraft components (for the aviation industry) in the area of engineering consultancy services through strategic alliances; R&D services for manufacturing and design in the automobile industry (through joint ventures); and planning, designing and implementation related consultancy services in the area of water and sanitation

27 Author's calculations based on UNCTAD database, http://unctadstat.unctad.org/ (accessed on November 29, 2011). See Table 16.

28 Segments within these services highlighted in the report include, market studies; financial analysis, and system development under management consultancy services; project management, business incubation, and turnkey projects under engineering consultancy services, and Business processing outsourcing, knowledge process outsourcing, and IT-enabled services provision in banking and financial services, manufacturing, and R&D under IT/Other Services.

services (through turnkey projects and feasibility studies). The report also notes the possibilities for Indian consultants to tie up with local Brazilian consultants for export of services to third countries in the Latin American region. What emerges clearly from such reports is that although most of India's current exports of business and professional services are with non-BRICS countries, there are opportunities in other BRICS markets, as reflected by the presence of leading Indian IT firms such as TCS, Wipro and Infosys in other BRICS countries, in areas such as IT support and consulting services. Similarly, there are Brazilian software companies which are entering the Indian and Chinese markets and trying to diversify outside Latin America. Light Infocon, for example, has established a joint venture, Online Productivity Solutions with the Indian company Goan, to produce software. In sum, there appears to be scope for diversification of services trade towards the BRICS in some areas of "other" commercial services.

5. Services Investment and the BRICS

An important part of services globalization is investment flows. Many services cannot be traded except through overseas commercial presence. Hence, a simple mapping of services exports and imports across the BRICS may not provide the complete picture of all the services where the BRICS can engage with each other. A nuanced approach is needed to understand the possible complementarities among the BRICS in services trade. For instance, segments such as computer and information services, where certain BRICS such as India are very export competitive, do not account for a significant or growing share of services imports in any of the countries. The same is true to some extent for construction services where certain BRICS such as China are competitive but which account for a negligible share of services imports in the other BRICS. This does not necessarily mean that there is no scope for trade in these segments among them as trade in these services may be in the form of FDI flows in these areas. Therefore, in order to arrive at a complete picture in this regard, one needs to examine the trends and patterns in investment flows for the BRICS, as discussed in this section. In fact, some of the areas of opportunity and existing engagements highlighted above hinge on commercial presence.

The following discussion provides an overview of the trends and characteristics of FDI into and from the BRICS. It discusses the overall significance of services in these FDI flows as well as the composition of FDI within the service sector. This is followed by an examination of the sources and destinations for FDI for the BRICS and the extent of transnationalization of BRICS country firms that are engaged in services operations in other countries. The discussion on the composition and geographic distribution of FDI and the transnational presence of BRICS firms in services provides some indication of the current or prospective engagement among these countries through investment flows in the service sector. It is important to note that in the absence of data which provides investment information by a combination of both country and sector, only inferences can be drawn regarding investment complementarities and mutual interests by juxtaposing the information on sectoral and partner country profiles for FDI for each of the BRICS.

FDI IN SERVICES

The BRICS have over the past decade, emerged as increasingly important destinations for FDI and in recent years, also as growing source countries for FDI. This trend is, however, not uniform across all the BRICS. Table 22 shows the trends in outward and inward FDI flows for each of the BRICS.

TABLE 22: OUTWARD AND INWARD FDI FLOWS FOR THE BRICS, 1995-2010 SELECTED YEARS (MN OF US$ AND %)

		OUTWARD FDI FLOW				INWARD FDI FLOW			
		1995	2000	2005	2010	1995	2000	2005	2010
Brazil	US$s at current prices and current exchange rates (mns)	1,095.64	2,281.59	2516.70	11,519.00	4,405.12	32,779.24	15,066.29	48,438.00
	US$s at current prices and current exchange rates per capita	6.77	13.08	13.53	59.09	27.22	187.93	81.01	248.47
	% of total world	0.30	0.19	0.29	0.87	1.29	2.34	1.53	3.89
	% of GDP	0.14	0.35	0.29	0.56	0.57	5.08	1.71	2.35
	% of Gross Fixed Capital Formation	0.78	2.11	1.79	..	3.13	30.26	10.72	..
Russia	US$s at current prices and current exchange rates (mns)	605.78	3176.78	12,767.47	51,696.80	2065.72	2714.23	12,885.81	41,194.40
	US$s at current prices and current exchange rates per capita	4.07	21.65	88.76	361.62	13.89	18.49	89.58	288.16
	% of total world	0.17	0.26	1.45	3.91	0.60	0.19	1.31	3.31
	% of GDP	0.15	1.22	1.67	3.51	0.52	1.05	1.69	2.80
	% of Gross Fixed Capital Formation	0.72	7.25	9.41	..	2.46	6.20	9.50	..
India	US$s at current prices and current exchange rates (mns)	119.00	514.45	2985.49	14,626.10	2151.00	3587.99	7621.77	24,639.92
	US$s at current prices and current exchange rates per capita	0.12	0.49	2.62	11.94	2.23	3.40	6.69	20.12
	% of total world	0.03	0.04	0.34	1.11	0.63	0.26	0.78	1.98
	% of GDP	0.03	0.11	0.36	0.90	0.58	0.77	0.91	1.52
	% of Gross Fixed Capital Formation	0.12	0.47	1.13	..	2.23	3.27	2.88	..
China	US$s at current prices and current exchange rates (mns)	2000.00	915.78	12,261.17	68,000.00	37,520.53	40,714.81	72,406.00	105,735.00
	US$s at current prices and current exchange rates per capita	1.68	0.73	9.54	51.59	31.46	32.65	56.35	80.21
	% of total world	0.55	0.07	1.39	5.14	10.96	2.90	7.37	8.50
	% of GDP	0.26	0.08	0.53	1.16	4.96	3.41	3.14	1.80
	% of Gross Fixed Capital Formation	0.80	0.22	1.30	..	15.00	9.96	7.68	..
South Africa	US$s at current prices and current exchange rates (mns)	2497.70	270.61	930.29	450.33	1241.30	887.34	6646.93	1553.02
	US$s at current prices and current exchange rates per capita	60.33	6.05	19.47	8.98	29.98	19.82	139.08	30.98
	% of total world	0.69	0.02	0.11	0.03	0.36	0.06	0.68	0.12
	% of GDP	1.65	0.20	0.38	0.12	0.82	0.67	2.69	0.43
	% of Gross Fixed Capital Formation	10.41	1.36	2.24	..	5.17	4.47	16.03	..

Source: UNCTAD database, http://unctadstat.unctad.org/ (accessed on October 29, 2011)

The above table illustrates that the BRICS have become increasingly important destination countries for FDI. Their share in global FDI inflows has increased from around 6 percent in 2000 to nearly 20 percent in 2010. This increase is, however, dominated by China which accounts for the bulk of FDI inflows among the BRICS with a share of over 8 percent of global FDI inflows in 2010, followed by Brazil and Russia with shares between 3 to 4 percent and India with a share of around 2 percent. South Africa accounts for a negligible share of these inflows. For the most part, excepting the case of South Africa, there is a significance increase in the absolute volume of FDI inflows for all the other countries through the 2000-10 period. This trend possibly reflects the growing globalization of firms in the past decade and the opening up of these economies to FDI and their integration with world markets. But what is interesting to note is the growing share of the BRICS in outward FDI flows, from a share of 0.6 percent in 2000 to over 16 percent in 2010. This increase is again dominated by China whose contribution to global FDI outflows has risen seventy-fold over this period followed by India and Russia. South Africa's importance as a source country for FDI has not changed during this period.

The overall trends in FDI inflows and outflows suggest that there is growing scope for engagement among the BRICS through investment flows. This has a bearing on the possibilities for cooperation and engagement among them in the service sector as many services are mainly tradable through FDI. It is thus important to examine the role services play in these flows. Tables 23a to 23d provide the sectoral distribution of FDI inflows for four of the BRICS, for selected years.

TABLE 23A: SECTORAL BREAKDOWN OF FDI INFLOWS FOR BRAZIL, SELECTED YEARS (MN OF US $ AND % SHARES)

	2009		2005		2000	
BRAZIL	Value	Share of total	Value	Share of total	Value	Share of total
Total (merchandise & services)	30444	100.0	21522	100.0	33331	100.0
Primary	3475	11.42	3675	17.08	1186	3.56
Secondary	13886	45.61	6455	29.99	7582	22.75
Services	13083	42.97	11392	52.93	21109	63.33
o/w Finance	4948	16.25	2155	10.01	6398	19.20
Wholesale and retail trade	2833	9.31	2843	13.21	1635	4.90
Business activities	1946	6.39	3479	16.16	1957	5.87
Construction	1165	3.83	204	0.95	12	0.04
Transport, storage and communications	1145	3.76	2112	9.82	10979	32.94
Public administration and defence	349	1.15				
Hotels and restaurants	276	0.91	128	0.59		
Publishing, printing and reproduction of recorded media	213	0.70	26	0.12	16	0.05
Community, social and personal service activities	146	0.48	373	1.73	113	0.34
Education	57	0.19	51	0.24		
Health and social services	4	0.01	3	0.01		
Other services	2	0.01	2	0.01		
Unspecified tertiary					0	0.00
Recycling			18	0.08		

Source: International Trade Centre; Investment Map, http://www.investmentmap.org (accessed on December 6, 2011)

TABLE 23B: SECTORAL BREAKDOWN OF FDI INFLOWS FOR RUSSIA, SELECTED YEARS (MN OF US $ AND % SHARES)

	2009		2005		2000	
RUSSIA	Value	Share of total	Value	Share of total	Value	Share of total
Total (merchandise & services)	15,906.00	100.0	13,072.00	100.0	4,429.00	100.0
Primary	1624	10.21	1192	9.12	993	22.42
Secondary	6032	37.92	9116	69.74	882	19.91
Services	8250	51.87	2862	21.15	2412	54.46
o/w Wholesale and retail trade	3518	22.12	767	5.87	865	19.53
Business activities	2739	17.22	930	7.11	150	3.39
Construction	744	4.68	117	0.90	45	1.02
Finance	634	3.99	589	4.51	26	0.59
Transport, storage and communications	480	3.02	245	1.87	1326	29.94
Community, social and personal service activities	67	0.42	83	0.63		
Hotels and restaurants	43	0.27	21	0.16		
Health and social services	25	0.16	12	0.09		
Education	0	0.00	0	0.00		

Source: International Trade Centre; Investment Map, http://www.investmentmap.org (accessed on December 6, 2011)

TABLE 23C: SECTORAL BREAKDOWN OF FDI INFLOWS FOR INDIA, SELECTED YEARS (MN OF US $ AND % SHARES)

	2009		2005		2000	
INDIA	Value	Share of total	Value	Share of total	Value	Share of total
Total (merchandise & services)	22,461.30	100.0	3,359.00	100.0	1,910.00	100.0
Primary					75	3.93
Secondary	7,287.20	32.44	1,487.00	44.27	412	21.57
Services	14,790.10	65.85	1685	50.16	845	44.2408
o/w Business activities	4,611.60	20.53	875	26.05	579	30.31
Construction	3,515.80	15.65	191	5.69		
Finance	2,205.90	9.82	318	9.47	40	2.09
Transport, storage and communications	2,072.60	9.23	95	2.83		
Unspecified tertiary	1,085.90	4.83	118	3.51	226	11.83
Hotels and restaurants	671.3	2.99	67	1.99		
Wholesale and retail trade	535.8	2.39	11	0.33		
Education	91.2	0.41	10	0.30		
Health and social services						

Source: International Trade Centre; Investment Map, http://www.investmentmap.org (accessed on December 6, 2011)

TABLE 23D: SECTORAL BREAKDOWN OF FDI INFLOWS FOR CHINA, SELECTED YEARS (MN OF US $ AND % SHARES)

	2009		2005		2001	
CHINA	Value	Share of total	Value	Share of total	Value	Share of total
Total (merchandise & services)	90033	100.0	72406	100.0	46878	100.0
Primary	1929	2.14	2451	3.39		
Secondary	48884	54.30	42469	58.65	33180	70.78
Services	39220	43.56	25462	35.17	10937	23.33
o/w Business activities	26795	29.76	9504	13.13	5267	11.24
Community, social and personal service activities	874	0.97			2631	5.61
Construction	692	0.77	490	0.68	807	1.72
Education	14	0.01	18	0.02		
Finance	456	0.51	12301	16.99	35	0.07
Health and social services	43	0.05	39	0.05	119	0.25
Hotels and restaurants	844	0.94				
Other services	1586	1.76	260	0.36		
Transport, storage and communications	2527	2.81	1812	2.50	909	1.94
Unspecified tertiary						
Wholesale and retail trade	5390	5.99	1039	1.43	1169	2.49

Source: International Trade Centre; Investment Map, http://www.investmentmap.org (accessed on December 6, 2011)

The sectoral composition of FDI inflows for Brazil, Russia, India, and China, as shown in the tables above indicate that services accounted for around 40 percent or more of all FDI inflows into these countries in 2010 and that the sector's share in inward FDI flows has increased considerably in the cases of India and China. As with trade flows, among the BRICS, India had the highest share for services in total inward FDI flows, at over 60 percent in 2010 and with cumulative FDI inflows into services amounting to $76.9 billion or 64 percent of total cumulative FDI inflows over the January 2000-May 2010 period. Only Brazil experienced a decline in the share of services FDI in total FDI inflows over the 2001 to 2010 period, mainly due to a sharp decline in FDI inflows to transport, storage, and communication services. The share of services in its FDI inflows nevertheless remained significant at over 40 percent.

The sub-sectoral breakdown of FDI shows commonalities across the four countries. The most important services within overall services FDI are distribution, business and financial services, most likely reflecting the liberalization of these services in these countries over the past decade (albeit to varying degrees) and the globalization of these activities with the emergence of transnational firms and advances in information and communication technologies.[29] Other services which are recipients of significant FDI inflows in these countries include transport, storage & communication services and construction services (though their shares vary considerably across these countries). Overall, there is clearly some competition in terms of attracting inward investment into these services.

In order to assess the possible complementarities among the BRICS with respect to FDI in services, one needs to examine the sectoral composition of their outward FDI flows to identify if there are subsectors

29 *An earlier study similarly found that through the last two decades, business and other services along with transport and trade and distribution services have attracted the bulk of FDI inflows in the BRIC countries.*

across different BRICS which are important in both inward and FDI flows and where they could potentially act as source and destination markets for each other. A problem in this regard is that it is difficult to obtain consistent and up to date data on the distribution of outward FDI for these countries. However, based on a few earlier studies and evidence on transnational firms from UNCTAD, there appears to be potential for intra BRICS FDI in services.

Emerging countries such as the BRICS are becoming increasingly important sources of investment. Most of their outward investments are in developing countries and tend to be concentrated in the infrastructure and extractive sectors. According to one study, between 1998 and 2003, emerging country TNCs, including several from the BRICS, accounted for around US $30 billion in infrastructure projects in developing countries.[30] More recent evidence on developing country TNCs confirms this fact. Services account for the bulk of Brazil's outward FDI, which is mainly directed at the Latin American and Caribbean region. Its main outward investment service industries are energy, trade-related transport, offshore financial services, and more recently also certain business services such as software. Russia's TNCs are mostly resource-based companies and are present in areas such as energy, telecommunication, and shipping services. India has significant outward FDI in non-financial services such as IT, business process outsourcing, and entertainment and broadcasting though its TNCs do not figure among the top developing country TNCs. Services also account for a growing share of its outward FDI flows, contributing to over 50 percent of total FDI outflows for the 1999-2008 period, with non-financial services such as communication, software and business services constituting the main segments. China's overseas FDI presence is mainly in resource-based extractive industries such as energy services and more recently its TNCs have also entered in IT and trading services. Several of its TNCS are positioned among the leading developing country international firms. South Africa's TNCs are mainly in financial and extractive industries. A listing of the 2011 Financial Times Top 500 sector rankings likewise indicates the presence of one or more of the BRICS in sectors such as banking, telecom, software, energy and construction services. The evidence overall suggests some degree of competition in areas such as energy, transport, and financial services and also complementarity in areas such as transport, financial and selected business services.[31]

Tables 24A to 24D provide the breakdown for outward FDI or activities of TNCS for four of the BRICS for the most recent available year. The significance of services as well as the range of service activities (especially the importance of various business activities) covered by these outflows from the BRICS is evident.

TABLE 24A: BRAZIL'S OUTWARD FDI STOCK, BY SECTOR AND INDUSTRY, 2003 (US $ MN)

Sector/Industry	Value
TOTAL	44,769
Primary	259
Secondary	1,190
Tertiary	43,319
Electricity, gas, water	20
Construction	695

30 *See, Gammeltoft (2008)*

31 *This discussion on transnationals and outward investment from the BRICS is based on a variety of studies and reports.*

Trade	1,908
Hotels and restaurants	207
Transport, storage, communications	207
Finance	22,355
Business activities	17,982
Education	1
Community, social and personal services	138

Source: Based on Sauvant (2005), Table 9, p. 658

TABLE 24B: RUSSIA: INDUSTRY DISTRIBUTION OF CROSS-BORDER M&A PURCHASES BY RUSSIAN COMPANIES, 2004 (NUMBER OF DEALS)

Sector/Industry	Value
TOTAL	25
Primary	-
Secondary	10
Tertiary	15
Electricity, gas, water	2
Trade	2
Transport, storage, communications	4
Finance	5

Source: Based on Sauvant (2005), Table 13, p. 664

TABLE 24C: INDIA: COMPOSITION OF APPROVED OUTWARD FDI FROM INDIA (% OF TOTAL), SELECTED YEARS

Category	2005-06	2006-07	2007-08	1999-2008
Manufacturing	59.9	24.9	43.7	42.7
Financial services	5.9	0.2	0.2	0.7
Non-financial services	24.8	54.7	12.1	30.3
Trading	4.7	8.3	3.2	5.1
Other	4.7	12.0	40.7	21.3
TOTAL (US $ mn)	2,866	15,053	22,480	52,299

Source: Reproduced from Athukorala (2009), Table 3, p.136 (based on RBI Annual Report, various years)
Note: Data are on the basis of the Indian financial year

TABLE 24D: CHINA'S OUTWARD FDI STOCK, BY SECTOR AND INDUSTRY, 2004 AND 2009 (US $ BN, % OF TOTAL)

SECTOR / INDUSTRY	2004[a]	2009
All sectors / industries	44.8	245.8
	100%	100%
Primary	6.8	42.6
	15.2%	17.3%
Agriculture, forestry, and fishing	0.8	2
	1.8%	0.8%
Mining, quarrying and petroleum	6	40.6
	13.4%	16.5%
Secondary	4.5	13.6
	10.0%	5.5%
Manufacturing	4.5	13.6
	10.0%	5.5%
Tertiary of which:	33.5	189.6
	74.8%	77.1%
Leasing and commercial services	16.4	7.3
	36.6%	3.0%
Financial services	n.a.	46
		18.7%
Wholesale and retail	7.8	35.7
	17.4%	14.5%
Transport, storage and postal services	4.6	16.6
	10.3%	6.8%

Source: Davies (2010), Annex Table 3, p,264

Note: a/ Not including financial OFDI

TABLE 25: SERVICE INDUSTRY TNCS FROM BRICS IN TOP 100 NON-FINANCIAL TNCS FROM DEVELOPING AND TRANSITION ECONOMIES (MN OF US $ AND NUMBER OF EMPLOYEES)

Ranking by:		Corporation	Home economy	Industry [c]	Assets		Sales		
Foreign assets	TNI b				Foreign	Total	Foreign	Total	TNI [b] (Per cent)
50	89	JSFC Sistema	Russia	Telecommunications	5 698	29 159	3 983	16 671	19.1
74	83	VimpelCom	Russia	Telecommunications	3 726	15 725	1 520	10 117	21.8
54	15	Suzlon Energy Limited	India	Diversified	5 310	7 370	4 714	5 685	75.7
2	88	CITIC Group	China	Diversified	43 750	238 725	5 427	22 230	21.0

7	46	China Ocean Shipping (Group) Company	China	Transport and storage	28 066	36 253	18 041	27 431	49.9
37	90	China State Construction Engineering Corp.	China	Construction and real estate	7 015	29 873	3 619	29 080	16.6
67	94	China Communications Construction Co.	China	Construction and real estate	4 010	31 911	5 599	25 740	12.1
75	14	Beijing Enterprises Holdings Ltd.	China	Diversified	3 662	6 670	2 524	2 530	77.0
78	99	China Railway Construction Corporation Ltd	China	Construction	3 146	32 204	2 475	31 571	9.1
98	19	TPV Technology Limited	China	Wholesale trade	2 266	3 354	6 860	9 247	69.8
1	9	Hutchison Whampoa Limited	Hong Kong, China	Diversified	70 762	87 745	25 006	30 236	82.0
12	22	Jardine Matheson HoldingsLtd	Hong Kong, China	Diversified	17 544	22 098	16 831	22 362	69.2
28	69	New World Development Co., Ltd.	Hong Kong, China	Diversified	9 061	22 775	1 304	3 144	37.5
35	2	China Merchants Holdings International	Hong Kong, China	Diversified	7 154	7 388	564	595	96.8
45	32	Shangri-La AsiaLimited	Hong Kong, China	Other consumer services	6 587	6 923	1 120	1 353	61.0
46	25	Orient Overseas International Ltd	Hong Kong, China	Transport and storage	6 412	7 702	2 196	6 545	67.3
60	5	Li & Fung Limited	Hong Kong, China	Wholesale trade	4 761	4 839	13 873	14 218	90.3
65	60	Noble Group Limited	Hong Kong, China	Wholesale trade	4 346	8 153	11 404	36 090	42.2
69	68	Swire Pacific Limited	Hong Kong, China	Business services	3 903	25 552	1 879	3 168	37.7
73	3	Guangdong Investment Limited	Hong Kong, China	Diversified	3 749	4 031	946	975	95.1
93	4	Road King Infrastructure Limited	Hong Kong, China	Transport and storage	2 428	2 698	535	595	90.4
21	24	MTN Group Limited	South Africa	Telecommunications	13 266	18 281	7 868	12 403	67.4

51	37	Netcare Limited	South Africa	Other consumer services	5 590	6 642	1 516	2 904	56.1
59	13	Medi Clinic Corp. Limited	South Africa	Other consumer services	4 788	5 395	1 341	2 294	78.7
70	39	Naspers Limited	South Africa	Other consumer services	3 821	5 746	995	3 018	55.3

Source: UNCTAD/Erasmus University database. Annex table 27. The top 100 non-financial TNCs from developing and transition economies, ranked by foreign assets, 2008 (accessed on October 31, 2011) http://www.unctad.org/templates/page.asp?intItemID=2443&lang=1

Notes:

a. *All data are based on the companies' annual reports unless otherwise stated.*
b. *TNI, the Transnationlity Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.*
c. *Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).*
d. *In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2008.*

The listing of leading non-financial TNCs from developing countries also confirms the emergence of the BRICS as source countries for FDI across various services. Table 25 presents service industry TNCs from the BRICS which feature in the top 100 non-financial TNCs from developing and transition economies, as ranked by foreign assets.

As illustrated by the list of leading BRICS TNCs engaged in service sector investments overseas, the main areas are infrastructure services such as energy, transport, telecommunications, as well as construction and business services.[32] As these are also important recipients of FDI inflows in most of the BRICS, there is complementarity in FDI interests in services among these countries. Moreover, as most of the outward FDI from these countries flows to other developing countries, there is scope for intra-BRICS engagement through cross border capital flows in services.

Growing outward FDI (mode 3 exports) from the BRICS and internationalization of their firms not only in services but also in other sectors are also driving "other" commercial services exports by the BRICS, in particular business and professional services. The case of Brazil highlights the link between outward FDI in both the goods and services sectors and "other" commercial services exports. For instance, the internationalization of Brazilian firms and the related demand for support services has resulted in increased cross border sales of business services such as financial, ICT, logistics and consulting. Brazilian banks have increased the provision of cross border financial services alongside the internationalization of Brazilian companies. Public and private sector banks have set up offices abroad and foreign banks have integrated their Brazilian offices into their global network. Brazil's logistics companies are becoming international to meet growing business demand in the country. Professional services such as legal, business consulting, project management services have also grown with the internationalization of Brazilian firms. Brazilian law firms have established international presence through partnerships, associations with other firms, or independent offices. Consultancy services exports in audit, accounting, management, environmental issues have increased, mostly through cross border trade but also through commercial presence in other countries via partnerships with local consultancy firms. Design services exports have grown mainly due to the demand from Brazilian companies which are present in other countries and which need the same

32 See, UNCTAD/Erasmus University database (accessed on October 31, 2011), Annex table 27. See Table 25 in this paper. http://www.unctad.org/templates/page.asp?intItemID=2443&lang=1

service design provider. Brazil has also penetrated the niche market for engineering and construction services. There are several large companies with strong international presence. In 2007, three Brazilian companies were among the 225 largest construction exporters in the world.

The Brazilian case shows that outward FDI has not only emerged as a mode of services exports for the BRICS in certain areas (as highlighted earlier) but that it has also led to the growth of supporting services exports through FDI and other modes of services trade. There is thus scope for greater service sector engagement among the BRICS in business and professional services as their firms become more internationalized and require supporting services to carry out overseas operations. Limited data available on the geographic distribution of their FDI inflows, as shown in Table 26, however, suggest that at present there is very limited engagement among these countries through overall investments, and thus also service sector investments.

TABLE 26: SELECTED SOURCE COUNTRIES FOR FDI FOR BRAZIL, RUSSIA, INDIA, CHINA, 2006-10 (US $MN)

Foreign investment flows by country	2006	2007	2008	2009	2010
Brazil					
United States	3,746	6,197	8,598	5,212	9,633
Netherlands	2,953	8,328	10,242	5,592	11,992
Spain	1,279	2,220	4,997	2,113	6,098
Russia	1	1	n/a	n/a	n/a
China	6	25	n/a	n/a	n/a
India	15	29	n/a	n/a	n/a
South Africa	8	2	n/a	n/a	n/a
Russia					
United States	7,784	15,121	21,200	9,932	12,079
Germany	3,708	7,117	9,864	4,664	5,728
Netherlands	4,483	8,562	11,810	5,601	6,887
United Kingdom	1,992	3,774	5,349	2,604	3,164
Japan	1,582	3,149	4,365	1,995	2,420
India					
United States	1,883	2,310	3,531	3,074	2,376
France	689	894	1,491	1,275	935
Japan	755	971	1,551	1,316	973
Netherlands	649	764	1,099	979	787
United Kingdom	705	806	1,121	1,027	845
China					
Hong Kong	41,203	55,477	63,652	43,201	72,591
Japan	12,460	16,477	18,464	12,895	20,594
South Korea	9,045	10,986	12,361	9,573	13,537
Taiwan	6,899	9,702	11,320	7,423	12,966
Brazil	38	44	47	38	50
South Africa	123	132	137	124	141
Russia	142	167	178	144	199

Source: EIU country investment service reports

For the four BRICS for which this distribution was available, the data indicate that till date overall intra-BRICS FDI is limited. With the exception of China, which reports investment inflows from almost all the other BRICS (though this FDI is quite small relative to that received from neighbouring countries in Asia and from developed countries), it is evident that the BRICS are currently not important sources or destinations for overall or services FDI.

Table 27 highlights all the major M&A deals and Greenfield projects involving a BRICS country firm in another BRICS country for the 2007-09 period. The very small number of such cases as against the large number of such investment deals by BRICS firms shown in Table 25 above and in Appendix Tables A1 to A4 confirms the fact that intra-BRICS services FDI is very limited at present.

TABLE 27: KEY M&A DEALS AND GREENFIELD INVESTMENTS BY CHINA, INDIA, AND RUSSIA, SELECTED YEARS

M&A DEALS BY OUTWARD INVESTING FIRM, 2007-09						
Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Transaction value
2009	China Investment Corp (CIC)	Nobel Oil Group	Oil and gas	Russia	45	300
2008	ICBC	Standard Bank Group Ltd	Banking	South Africa	20	5,617
2007	Videocon/Bharat Petro Resources	Encana Brasil Petroleo	Energy and power	Brazil	50%	0.4
MAIN GREENFIELD PROJECTS, BY OUTWARD INVESTING FIRM, 2008-2009						
Year	Investing company		Industry		Host economy	Investment value
2009	China Petroleum and Chemical (Sinopec)		Coal, oil and natural gas		Russia	220
2009	China North Industries Group (NORINCO)		Building and construction materials		Russia	616

Source: EIU Country Investment Service Reports

Clearly, China dominates whatever little outward FDI in services is currently occurring among the BRICS. This outward investment is dominated by energy services but other services such as construction and finance also feature. India's presence is much smaller but also reflects its strength in the IT and ITeS segment. Although Russian firms are also engaged in outward investment deals through M&As and Greenfield projects, particularly in energy services, the geographic orientation is towards Central Asia. Similar information is not available for Brazil or South Africa. Overall, the data on FDI suggests scope for increased cooperation as well as competition among the BRICS. There is both complementarity and overlap in the sectoral composition of their inward and outward FDI flows and in the sectoral profile of their TNCs.

6. Regulatory Reforms and Liberalization in Services

The growth of the services sector in GDP and in FDI is indicative of the liberalization undertaken in all these economies over the past decade or two. An overview of the Trade Policy Reviews for the WTO member countries among the BRICS and other available information on their regulatory barriers highlight the general thrust towards liberalization of services and increased private participation in their service sectors in recent years. The following discussion provides an overview of the business environment in these countries, as measured by the usual doing business indicators and rankings. It also highlights the overall foreign investment framework in these countries. The focus on investment and business environment indicators is warranted by the significance of FDI and establishment of commercial presence as a mode of trade in many services. This broader discussion of the regulatory environment is followed by an overview of the nature and extent of liberalization and regulatory reforms for selected services in each of these countries. The commonalities and differences across these countries as well as the implications for intra-BRICS engagement are highlighted.

6.1 Liberalization and reforms in selected services

An examination of the business indicators for the BRICS indicates that there is considerable divergence among them in terms of the ease of doing business. Among 183 countries that were ranked, barring South Africa which ranked within the top 50 countries, most of the BRICS were in the middle to lower ranks on a wide range of business environment indicators. On most key indicators pertaining to the establishment and operation of business, the BRICS, in particular India followed by Brazil, fare quite poorly. These rankings suggest that the BRICS, save South Africa, do not fare very well in the list of business friendly nations, which would be a deterrent to not only overall investment but also intra-BRICS investment and cooperation. They rank poorly on a variety of parameters, including availability of basic infrastructure and legislative and contractual aspects.

TABLE 28: DOING BUSINESS RANKING

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Brazil	126	120	127	51	114	98	79	150	121	118	136
China	91	151	179	115	40	67	97	122	60	16	75
India	132	166	181	98	97	40	46	147	109	182	128
Russia	120	111	178	183	45	98	111	105	160	13	60
South Africa	35	44	31	124	76	1	10	44	144	81	77

Source: The World Bank Doing Business Database: http://www.doingbusiness.org (accessed on December 13, 2011)
Note: All Doing Business 2011 rankings have been recalculated to reflect changes to the methodology. For Paying Taxes, economies that have total tax rates below 32.5% in Doing Business 2012 are assigned a total tax rate of 32.5% for the purpose of calculating the rankings. For Doing Business 2011, the total tax rate is 32.7%.

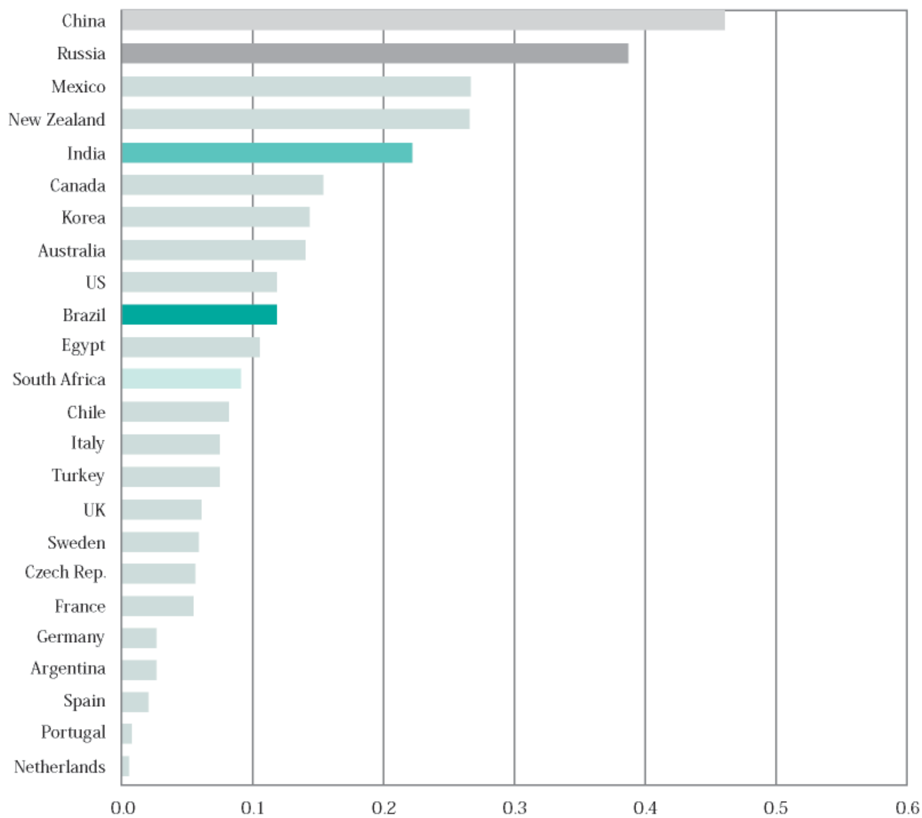
As FDI constitutes a significant part of cross border delivery of services, an overview of the FDI indicators for these economies at the aggregate as well as at the sectoral and subsectoral levels is useful for understanding how liberal or restrictive these countries have been in services and the trends in this regard. The following table provides the overall FDI index for 2010 as estimated by the OECD (for 48 countries and across 22 sectors) and the incidence of restrictions on different regulations affecting FDI. The component-wise indices indicate that for the most part, equity restrictions are the main contributor to FDI barriers. South Africa emerges as the most open to FDI, followed by Brazil, among the BRICS, for both border level and behind-the-border regulations. Both Brazil and South Africa are less restrictive than the average non-OECD country and South Africa compares favourably relative to even the OECD countries. China, India and Russia have a more restrictive FDI regime than the average developing country.

TABLE 29: FDI INDEX SCORES BY COUNTRY AND TYPE OF MEASURE (CLOSED = 1, OPEN = 0)

	Equity Restrictions	Screening	Key Personnel	Operational Restrictions	Total FDI Index
ALL COUNTRIES	0.072	0.02	0.006	0.021	0.117
OECD	0.059	0.024	0.001	0.013	0.095
NON-OECD	0.096	0.014	0.014	0.036	0.157
Brazil	0.08	0	0.005	0.033	0.116
China	0.226	0.135	0.048	0.069	0.457
India	0.191	0.025	0.005	0	0.22
Russia	0.216	0.04	0.005	0.122	0.384
South Africa	0.022	0	0	0.067	0.089

Source: Kalinova, Palerm, and Thomsen (2010), OECD's FDI Regulatory Restrictiveness Index, 2010 Update

FIGURE 17: OECD FDI REGULATORY RESTRICTIVENESS INDEX 2010: SELECTED ECONOMIES (0= OPEN, 1= CLOSED)

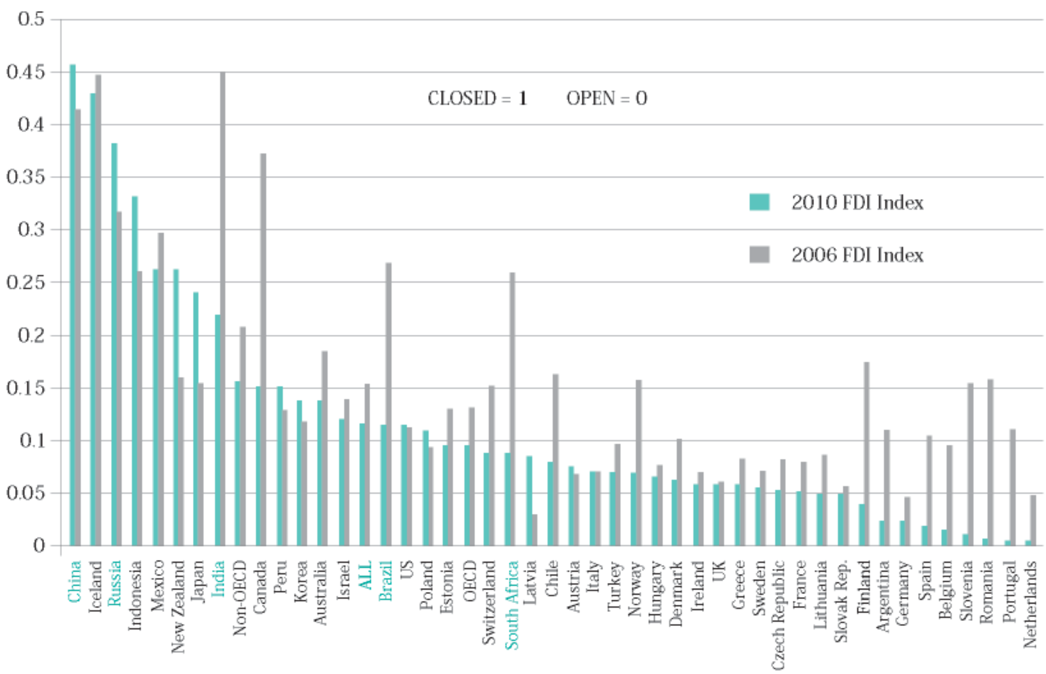


Source: Kalinova, B., A. Palerm and S. Thomsen (2010), "OECD's FDI Regulatory Restrictiveness Index: 2010 Update", OECD Working Papers on International Investment No. 2010/3, OECD Investment Division

The relative position of the BRICS vis a vis selected developing and developed countries is illustrated in Figure 17. This too highlights the more restrictive FDI environment in China, Russia and India compared to Brazil and South Africa. So, clearly the policy frameworks for FDI and the degree and nature of FDI liberalization vary across the BRICS. However, these indices only capture the presence of restrictions specific to FDI and do not necessarily reflect on the broader regulatory environment in these countries.

Figure 18 shows the change in the FDI restrictiveness between 2006 and 2010 for the BRICS as well as several other developed and developing countries. An interesting feature that emerges is that the overall regulatory environment for FDI has actually become slightly more restrictive between 2006 and 2010 in the case of China and Russia while it has become significantly more liberal for the other BRICS over this same period. To a large extent, the overall FDI indices in the BRICS and the changes observed in this index over time capture changes in the regulatory environment governing the service sector in these countries, as discussed next.

FIGURE 18: FDI INDICES FOR 2006 AND 2010 FOR SELECTED COUNTRIES



Source: Kalinova, B., A. Palerm and S. Thomsen (2010), "OECD's FDI Regulatory Restrictiveness Index: 2010 Update", OECD Working Papers on International Investment No. 2010/3, OECD Investment Division

6.2 Policy environment in services

Foreign entry and ownership limits are restricted in several services in the BRICS, including in services as varied as broadcasting and print media, telecommunications, financial, business, and transport services, among others. Tables 30 and 31 highlight the trends in the FDI restrictiveness indices for different sectors of these economies and reflect the role of FDI regulations in the service sector in shaping these trends.

TABLE 30: FDI RESTRICTIVENESS INDEX SCORES BY COUNTRY AND SECTOR, 2010

(CLOSED = 1, OPEN = 0)

	OECD	NON-OECD	Brazil	China	India	Russia	South Africa
Agri. & For. 1/	0.163	0.128	0.095	0.545	0.451	0.650	0.060
Fishing	0.324	0.320	1.000	1.000	0.000	0.383	0.060
Mining	0.153	0.122	0.025	0.390	0.525	0.943	0.060
Manuf. 2/	0.040	0.030	0.025	0.252	0.026	0.197	0.060
Electricity	0.123	0.123	0.025	0.608	0.000	0.249	0.060
Construction	0.057	0.055	0.025	0.265	0.000	0.183	0.060
Distribution 3/	0.062	0.029	0.025	0.238	0.420	0.183	0.060
Hotels & res.	0.047	0.030	0.025	0.250	0.000	0.348	0.060
Transport	0.249	0.227	0.292	0.665	0.174	0.375	0.227
Media	0.228	0.180	0.675	1.000	0.600	0.383	0.060
Telecom	0.121	0.092	0.025	0.800	0.425	0.283	0.060
Financial Serv. 4/	0.081	0.053	0.025	0.610	0.248	0.533	0.127
Business Serv.	0.102	0.067	0.025	0.138	0.500	0.308	0.385
Real Estate	0.281	0.283	0.000	0.275	0.000	0.733	0.010
Total FDI Index	0.117	0.095	0.116	0.457	0.220	0.384	0.089

Source: Kalinova, Palerm, and Thomsen (2010), OECD's FDI Regulatory Restrictiveness Index 2010 Update

Notes:

1/ Average scores for Agriculture and for Forestry.

2/ Average scores for 5 manufacturing sectors.

3/ Average scores for Retail and Wholesale Distribution.

4/ Average scores for Banking, Insurance and Other finance.

TABLE 31: FDI REGULATORY RESTRICTIVENESS SCORES BY COUNTRY AND SECTOR, 2006

(1 = CLOSED, 0 = OPEN)

	Brazil	China	India	Russia	South Africa	All Average
Business services						
Legal	0.1	0.3	1	0.175	0.125	0.239
Accounting	0.1	0.425	1	0.175	0.125	0.191
Architecture	0.1	0.1	1	0.175	0.125	0.11
Engineering	0.1	0.1	0.05	0.175	0.125	0.087
Total	**0.1**	**0.231**	**0.863**	**0.175**	**0.125**	**0.16**
Telecoms						
Fixed	0.2	0.55	0.35	0.4	0.65	0.196
Mobile	0.2	0.45	0.35	0.35	0.6	0.152

Total	**0.2**	**0.525**	**0.35**	**0.388**	**0.638**	**0.185**
Construction	0.1	0.15	0.25	0.2	0.15	0.08
Distribution	0.1	0.45	0.6	0.1	0.15	0.092
Finance						
Insurance	0.15	0.35	0.45	0.85	0.35	0.152
Banking	0.4	0.55	0.35	0.55	0.25	0.172
Total	**0.343**	**0.504**	**0.373**	**0.619**	**0.273**	**0.167**
Hotels & Restaurants	0.1	0.15	0.05	0.1	0.1	0.071
Transport						
Air	0.6	0.55	0.55	0.6	0.25	0.454
Maritime	0.2	0.55	0.05	0.4	0.25	0.27
Road	0.6	0.15	0.05	0.2	0.3	0.128
Total	**0.416**	**0.466**	**0.215**	**0.424**	**0.261**	**0.302**
Electricity	0.1	0.75	0.15	0.75	1	0.376
Manufacturing	0.1	0.4	0.2	0.23	0.2	0.086
TOTAL	0.195	0.405	0.401	0.318	0.234	0.159

Source: OECD, OECD's FDI Restrictiveness Index, 2006 Update

The sectoral and subsectoral FDI restrictiveness indices indicate that services tend to be more restricted than manufacturing in most of the BRICS and hence the overall indices highlighted earlier do reflect the presence of regulatory barriers in the service sector. Within services, there has been a reduction in FDI restrictions in several segments. However, China has become more restrictive in financial, construction, telecom, transport, and hotel and restaurant services while Russia has become more restrictive in distribution, business, and hotel and restaurant services over the 2006-2010 period.[33] Hence, services have clearly contributed to the rise in the overall FDI restrictiveness index, highlighted earlier in the case of China and Russia, although without further disaggregation of the components of the index it is difficult to say whether entry restrictions or operational restrictions underlie this increased restrictiveness for the two countries.[34] Among the BRICS, South Africa and Brazil exhibit the most liberal FDI environment and also compare very favourably with developed countries. Along with India, they exhibit the most significant liberalization in FDI regulations over the 2006-2010 period. [35]

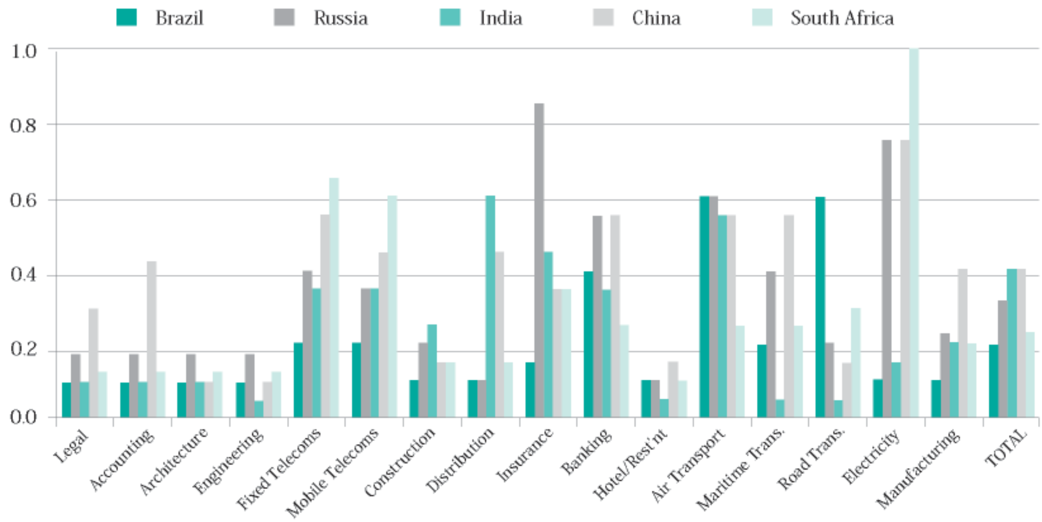
The following figures position the BRICS against each other and against the OECD average in terms of their regulatory restrictiveness scores in selected services for the year 2010. They highlight the considerable variability in restrictions across different services but also reveal a certain degree of uniformity among them in terms of which services tend to be more restricted than others, indicating that similar sensitivities and concerns may underlie the degree and nature of liberalization undertaken in various services.

33 Based on OECD'S FDI Restrictiveness Index for 2006 and 2010

34 There are several reports and papers which note that the Russian government has become increasingly restrictive in recent years about majority foreign ownership of Russian companies and entry of foreign providers.

35 Based on OECD'S FDI Restrictiveness Index, 2006 and 2010

FIGURE 19 OECD FDI REGULATORY RESTRICTIVENESS SCORES FOR BRICS, INDEX 0 TO 1 (CLOSED =1, OPEN = 0)



Source: Koyuma and Golub (2006), OECD's FDI Regulatory Restrictiveness Index: Revision and Extension more Economies, Economic Department Working Papers No. 525, pp. 8-10

Banking, insurance, telecom, transport and electricity services tend to be more restricted services across all the BRICS. The public utilities nature of these services and presence of government service providers in these areas possibly explains this feature. The service which shows the most variability in the degree of restrictiveness is distribution reflecting the fact that in some of the BRICS, parts of this sector are only partially open and lot of operating restrictions apply. It is also worth noting that on average services show a higher degree of FDI restrictiveness compared to manufacturing, for all the countries. The trade 2006 restrictiveness indices for the generally more regulated services are highlighted in Figures 20 to 24.

FIGURE 20: OECD TRADE RESTRICTIVENESS INDEX FOR BRICS IN BANKING

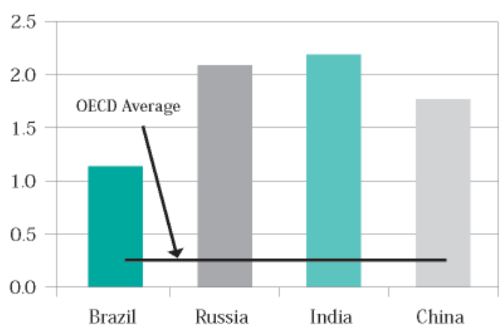
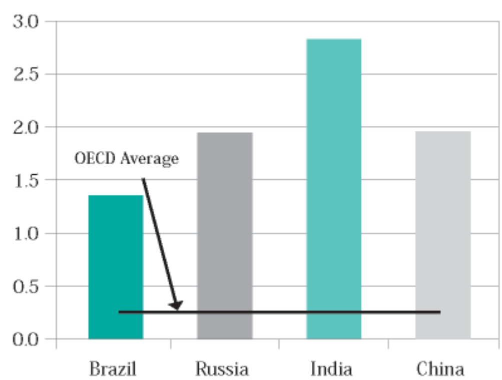


FIGURE 21: OECD TRADE RESTRICTIVENESS INDEX INDEX FOR BRICS IN INSURANCE



Source: OECD (2007), Modal Estimates of Services Barriers, OECD Trade Policy Working Paper No. 51, pp. 23-27

FIGURE 22: OECD TRADE RESTRICTIVENESS INDEX INDEX FOR BRICS IN FIXED TELECOM

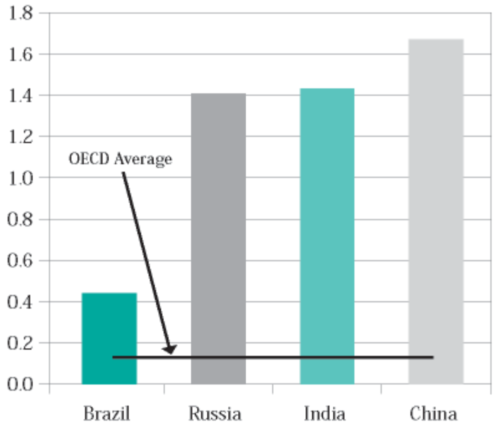
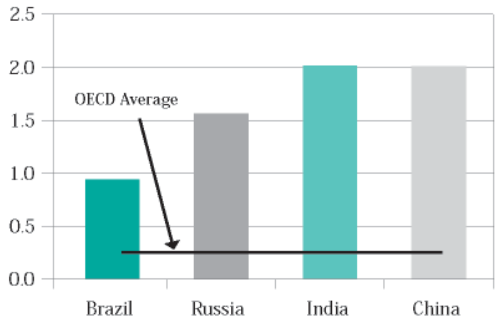
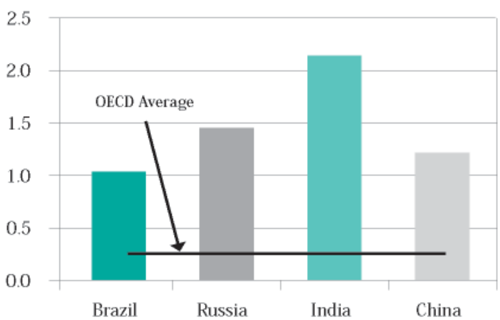


FIGURE 23: OECD TRADE RESTRICTIVENESS INDEX FOR BRICS IN MOBILE TELECOM



Source: OECD (2007), Modal Estimates of Services Barriers, OECD Trade Policy Working Paper No. 51, pp. 23-27

FIGURE 24 OECD TRADE RESTRICTIVENESS INDEX FOR BRICS IN DISTRIBUTION



Source: OECD (2007), Modal Estimates of Services Barriers, OECD Trade Policy Working Paper No. 51, pp. 23-27

6.3 Reforms and Liberalization in Selected Services

Liberalization of services in the BRICS has involved a variety of measures, including the removal of government monopolies, entry of private providers both domestic and foreign, changes in the framework for regulatory oversight and transparency, and removal or relaxation of FDI entry and operating restrictions. The case of a few selected services for each of the BRICS provides an understanding of the measures that have characterized reforms and liberalization initiatives in the service sector of these countries.

6.3.1 Telecommunication services

This is a sector which has witnessed considerable expansion in the number of subscribers and in tele-density in all the BRICS, particularly in the mobile telephony segment. In recent years, telecom services have undergone both privatization and liberalization in these countries, though the process has been fraught with regulatory problems and delays in several of the countries.

(A) SOUTH AFRICA

In South Africa, the privatization process in telecommunications began in May 1997 when 30 percent of the fixed line operator, Telkom, which was wholly owned by the government, was sold to a foreign consortium. The second state of privatization, with an initial IPO of shares in Telkom was postponed till 2002-03 due to adverse market conditions and delays in finalizing the policy framework.[36] Three joint ventures between South African and foreign companies have since been permitted in the mobile segment but in the basic public switched telecommunications services, the government monopoly continues. Suppliers providing private value added network services and license holders are required to use the Telkom infrastructure. Although a second network operator has become operational, foreign equity participation in this operator is limited to 51 percent, with the remaining shares being held by the BEE and para-statals. There are also stipulations regarding the geographic coverage to be provided by the second network operator within 10 years. An international gateway has been issued to a state owned company. The Independent Communications Authority of South Africa is the regulatory authority. It approves all telecommunications tariffs, grants licenses, sets standards, and also addresses issues such as unfair competition and cross-subsidization. However, there has been criticism about the creation of this regulatory body as its decisions have often been challenged by the state operator. The subsector is also plagued by problems of fraud and non-payment which has led to disconnection of fixed lines and could affect the prospects for increasing internet penetration in the country.

(B) CHINA

The telecommunications sector has undergone continued liberalization and growing competition with the introduction of new players and technologies. The basic telecom market has been restructured resulting in three country-wide basic telecom service providers, which are all state owned enterprises that provide fixed, mobile, data, IP telephony and satellite services. Steps have also been taken to promote transparency. The state remains the majority owner of all basic telecom service providers though there has been a gradual increase in private participation and foreign investment in this segment.[37] The Ministry of Information Industries and Technology is the regulatory authority in the telecom sector. It sets tariffs, supervises their implementation and issues licenses. It is an independent regulator. As there is no specific license for resale of telecom services, enterprises are allowed to choose the manner in which they provide the services after obtaining a basic telecom license, either by setting up their own facilities or by providing services on a resale basis.

Liberalization measures have included reductions in the minimum registered capital requirement for foreign invested telecom enterprises engaged in providing basic telecom services across the country and within specific geographies in the country. The government has also eliminated the approval requirement for domestic companies to be listed abroad, thus encouraging internationalization in this sector. Foreign equity participation is restricted up to 49 percent for basic telecom services and up to 50 percent for value added telecom services. There is provision for government set, government guided and market adjusted tariffs and in areas where there is adequate competition, such as in value added services, tariffs have been liberalized gradually and to be determined by the market.

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36 See WTO Trade Policy Review, SACU South Africa, WT/TPR/S/114/ZAF, 2003, p. A4-278

37 WTO Trade Policy Review 2011 China WT/TPR/S/241/Rev.1, p.70 & Hong Kong / China Industry Focus; China Telecom Sector DBS Group Research, February 24, 2010

(C) INDIA[38]

The telecom sector has undergone extensive liberalization and reforms since the introduction of the National Telecom Policy in 1994. The main steps in the liberalization of this sector have been the entry of private participants in the basic telecom segment and gradual relaxation of the foreign equity ceiling in both basic and mobile services. The second phase of telecommunications reforms starting in 1999 saw the opening up of national long distance telephony to private operators and subsequent opening up of international long distance service to competition in 2001 by privatizing the public provider and removing restrictions on the number of operators in this segment. Other liberalization measures include the opening up of internet telephony, disinvestment and corporatization of public sector telecommunications providers, introduction of new technologies and forms of service delivery, and approval for internet service providers to set up international internet gateways. There have, however, been repeated problems with regulating the sector due to conflicts between incumbent state providers and private entrants and criticism regarding the independence of the regulator in the issuance of licenses.

The foreign investment regime has been significantly liberalized. Since February 2005 the government has increased the foreign holding limit from an earlier limit of 49% to 74%. The affected services are fixed-line basic services, cellular services, unified access services, national and international long-distance telephony, public mobile trunked services, global mobile personal communication services, and various value-added services such as voice mail and e-mail services. Subsequently, FDI has been permitted up to 100% in value-added services such as e-mail, voice mail, electronic data interchange, on-line information and data processing, and internet service provision without gateways. Competition has thus been encouraged, with the entry of both local and foreign providers, the granting of greater flexibility to existing participants with the waiver of various obligations and permission to provide additional services, and substantial reductions in entry and licensing fee shares from providers.

(D) BRAZIL[39]

The telecom sector was privatized in Brazil in 1998 and further liberalized in 2001-02. Competition was encouraged by dividing the country into geographical regions by type of service provided and by establishing a duopoly between the privatized state monopoly and another company in the case of fixed telephony and between two licensed operators in the case of mobile telephony. New authorizations have been granted to provide fixed local, national, and international long distance services. The subsector has also seen consolidation with the acquisition of operators by the main telecom holding companies. Market concentration disciplines have been modified recently to permit telecom companies to own fixed telephony incumbents in more than one region. Incumbent operators of fixed telephony receive concessions under the public regime which come with strict requirements on issues of universal service obligations and pricing while authorizations have been granted to new operators under the private regime which tend to be more liberal. Since 2005, the regime for long distance authorizations has been relaxed and coverage requirements have been eliminated. Notwithstanding the entry of new providers, incumbents continue to dominate the fixed line segment, controlling more than 90 percent of fixed lines, though there is growing competition from mobile telephony.

Although Brazil has not made any specific commitments in basic telecom under the GATS and thus has the right to limit new foreign participation in the telecom sector the policies regarding foreign

38 *WTO Trade Policy Review 2011 India WT/TPR/S/249, p.159 & Report presented in India Telecom 2009. (This report was compiled by FICCI and KPMG and released by the Department of Telecommunications).*

39 *WTO Trade Policy Review 2009 Brazil WT/TPR/S/212/Rev.1, p. 128 and Report on Brazil's Telecom Industry, prepared by the Massachusetts South America Office, June 2007.*

investment have been liberal. As per the latest TPR for Brazil, the telecom regulatory structure follows international best practice and the telecom regulator is administratively independent and financially autonomous. However, it has been noted that in order to signal the country's commitment to open trade and investment policies, regulatory action is needed in various areas, including pricing, interconnection, portability and universal access.

6.3.2 Financial Services

This is another sector where one finds a similar pattern of gradual phasing in of liberalization through increased foreign equity participation limits, entry of private players and increased domestic competition, and institution of new regulatory frameworks. There is also continued dominance of the public sector in some of the BRICS.

(A) SOUTH AFRICA[40]

South Africa made further commitments during the 1997 WTO financial services negotiations. It made commitments on commercial presence for all financial services excluding insurance services. Its national treatment commitment in banking services requires branches of banks not incorporated in South Africa to maintain a minimum balance of R 1 million on the deposit accounts of natural persons, while its market access commitment in banking services requires companies to be incorporated as public companies in South Africa, and registered with the Registrar of Banks in order to carry on business in the country. It has made market access and national treatment commitments in insurance services for modes 2 and 3, wherein the acquisition of shares or any other interest (by a resident or non-resident) in a registered insurer which results in holding 25% or more of the value of all shares requires the written approval of the Registrar of Insurance. South Africa also maintains MFN exemptions as it allows members of the Common Monetary Area, namely, Lesotho, Namibia, and Swaziland to enjoy preferential access (exemptions from exchange controls) to its capital and money markets, and transfers of funds.

The banking system is regulated by the Bank Supervision Department of the South African Reserve Bank. Over time several changes have been effected in the legislative framework for banking, including allowing greater flexibility to banks in the utilization of assets, better regulation and protection of investments, and deregulation of charges. Regulations concerning ownership and operations are quite liberal. Non-banking financial institutions are required to register with the Financial Services Board, an independent institution which regulates and supervises the financial markets and all non bank institutions. There are no state-owned commercial banks, although there are several development finance institutions.

The policies for both banking and insurance services are quite liberal. In the insurance services segment, any person, South African or foreigner, may control an insurance company. However, foreign insurers are not allowed to open branches and may only register subsidiaries. Control of banks is permitted for South Africans or foreigners. Three forms of banking operations are permitted, which include forming a separate banking company, setting up a branch of an international bank or banking group, and setting up a representative office of an international bank. All these forms of operation require prior approval of the Registrar of Banks. The criteria for the registration of a bank are the same for domestic or foreign investors but foreign banks are required to include additional information with their application, such as foreign bank holding company resolution approving proposed formation of the bank and letter of no objection from the foreign bank's home regulatory authority. With the opening up of banking services, there has been an increase in the number of registered domestic and foreign banks. The number of

40 *WTO Trade Policy Review, SACU South Africa, WT/TPR/S/114/ZAF, 2003, p. A4-279*

local branches of foreign banks and their representative offices have increased and the concentration of ownership of assets and deposits among the largest banks has reduced with increased competition. The overseas exposures of South African Banks have also increased steadily.

(B) CHINA[41]

There has been substantial liberalization in the financial sector. Foreign banks are permitted in the form of wholly owned subsidiaries, joint ventures between Chinese and foreign banks, or branches. Wholly foreign funded and joint venture banks are allowed to engage in the same operations as domestic commercial banks. The minimum asset requirements are higher for the establishment of branches than for locally incorporated entities. In its WTO commitments, China agreed to open its financial markets substantially but in a phased manner. It permitted foreign banks to undertake some local currency business with their customers after two years of its accession and to fully engage in local currency services as well as receive national treatment without restrictions on branching, scope or geography after five years of its entry into the WTO. Some restrictions remain, however. Branches of foreign banks are not allowed to issue credit cards for prudential reasons. Branches of foreign banks may receive time deposits of not less than Yuan 1 million each from Chinese citizens within China. Differential treatment between domestic and foreign funded banks is in place for prudential reasons. Notwithstanding liberalization, this segment remains underdeveloped and a high degree of state ownership continues.

Foreign insurance companies are allowed to enter the market as 100% foreign-owned subsidiaries for non-life insurance and up to 50% foreign owned for life insurance. There are conditions for the establishment of representative offices by foreign insurance companies, including a minimum asset requirement of US$2 billion. Of 112 insurance companies operating in China in end 2008, 48 were foreign companies. The market, however, remains very concentrated and foreign insurance companies accounted for a little over 4 percent of insurance premiums as well as total assets in this sector.

The securities market has been partially liberalized. Foreign suppliers are allowed to enter China's securities markets through the establishment of a new joint-venture with a Chinese partner or by taking a stake in an existing listed securities firm. The foreign equity participation limit in listed Chinese securities firms was raised to 25% (accumulated total foreign participation) in end 2007 with a limit of 20 percent for a single foreign investor and a maximum limit of 25 percent for aggregate ownership of shares by foreign companies (the earlier limits being 10 percent and 20 percent, respectively). The period of continuous operation in securities required to get approval for foreign equity participation in such firms has been reduced from ten to five years. Joint-venture securities firms have also been approved for business, with a foreign equity limit of 33 percent. The asset management segment has also been partly opened up, with foreign equity participation for joint venture fund management companies limited to 49 percent.

(C) INDIA[42]

The financial services sector in India, particularly banking and insurance, continues to be dominated by state owned companies, notwithstanding measures to promote private sector competition. Reforms have been introduced since 1992 with the objective of relaxing external constraints, strengthening the sector, and putting in place an institutional framework to oversee its functioning.

41 *WTO Trade Policy Review 2011 China WT/TPR/S/241/Rev.1, 2010, p. 63*

42 *WTO Trade Policy Review 2011 India WT/TPR/S/249, 2010, p.140*

Banking system reforms have included the relaxation of restrictions on foreign banks' ownership and establishment conditions, allowing the participation of domestic private banks, introduction of improved prudential regulations, deregulation of interest rates, liberalization of bank branching policy and entry norms for private domestic and foreign banks. FDI limits in the banking system have been increased gradually, from only minority participation of up to 20 percent through technical collaborations or subject to FIPB approval earlier to a limit of 49 percent limit under automatic route. This limit was further raised to 74 percent for all forms of foreign investment in private banks and of 20 percent in public banks. The form of establishment has also been relaxed with foreign banks now permitted to operate as wholly owned subsidiaries and not just branches. Foreign banks require a license from the Central Bank to undertake banking operations and authorization is required for opening new branches. There are lending requirements on domestic and foreign commercial banks. Foreign banks are required to allocate 32 percent of their net lending to priority sectors, which may have an impact on the overall cost of financial intermediation and increase financial risk.[43]

The Reserve Bank of India has formulated guidelines on the ownership and governance of private banks, including foreign banks in India. These guidelines cover minimum capital requirements, provisions on ownership structure, procedures for acquisition and transfer of shares, voting rights, and administrative conditions. The roadmap for implementing these guidelines has been divided into two phases, from 2005-2009 and from 2009. In the first phase, foreign banks willing to have a presence in India for the first time could choose to operate through a branch or could set up a 100% wholly owned subsidiary. Foreign banks already operating in India were allowed to convert their existing branches to a wholly owned subsidiary, which would be treated as existing branches of foreign banks for branch expansion in India. However, all foreign banks have so far continued as branches and none have applied for conversion to wholly owned subsidiary [44]status. In the second phase, foreign banks were to be permitted to enter into mergers and acquisitions with any private bank in India, subject to an overall investment limit of 74%. However, this phase has been delayed as it coincided with the global financial crisis and clarity on the stability and recovery of the global financial system was sought before its introduction. Views on the most convenient form of foreign bank presence in India are currently being sought and guidelines will be finalized after feedback is received.

The insurance sector has been regulated by the Insurance Regulatory and Development Authority since 2000. Foreign participation is permitted at 26 percent and stands at 24.1 percent of total private equity as of end 2010. Although many private insurance companies have entered this segment, the industry continues to be dominated by public sector enterprises with the latter accounting for over half of gross premium income. Competition has been limited by high entry barriers in the form of minimum capital requirements for setting up an insurance company, the restriction of 26 percent on foreign equity participation, and requirements for placing a certain share of policies with the rural and social sectors.[45] It is anticipated that the foreign equity limit will be raised in the near future to 49 percent and foreign reinsurers will be permitted to open branches for reinsurance business in India. [46]

The capital market has also been liberalized. Foreign investment is allowed, in the form of FDI or portfolio investment (FII). However, investments by individual FIIs may not exceed 10 percent of the

43 *WTO Trade Policy Review 2011 India WT/TPR/S/249, p. 141.*

44 *Ibid 43, p.145. Under India's GATS commitments, foreign banks were allowed to access the Indian market only through branches. Restrictions were also imposed on the number of banking licences (12 per year, both for new entrants and existing banks), and on the value of the banking system's assets in the hands of foreign banks (15% of total assets).*

45 *Ibid 43, p. 145.*

46 *Ibid 43, p. 153.*

issued capital of a company and all FIIs together cannot acquire more than 24 percent of the paid up capital of an Indian company. Foreign investment in the stock exchange is limited to 49%. There are also restrictions on the value and maturity profile of portfolio investment in government and corporate debt securities. The government has also opened up the possibility for mutual funds to accept subscriptions from foreign investors in equity oriented schemes, increasing foreign investment possibilities in the mutual funds industry.

(D) BRAZIL

Foreign financial institutions are permitted to establish in Brazil, but commercial presence restrictions apply in principle.[47] Establishment of new branches of foreign financial institutions or increased participation of foreigners or foreign entities in the capital of Brazilian financial institutions is allowed subject to approval by Presidential decree, upon recommendation by the Central Bank. Foreign financial institutions or individuals seeking to participate in Brazilian financial institutions must seek authorization. They must submit company information to the Central Bank and must specify the amount of foreign participation in the total capital, the accruing benefits to the Brazilian economy, and provide a description of the existing activities of the foreign investor in the country's financial system, where applicable. There are minimum capital requirements which vary by type of bank or financial institution. Financial institutions can request the installation of up to ten branches without additional capital requirements, beyond which there are additional capital requirements for paid-in capital and net equity per branch in different states of the country.

Banks incorporated in Brazil may be 100% owned by foreign capital. Foreign banks must be established as a subsidiary or branch in order to be able to take deposits or to lend in Brazil. Representative offices are not allowed to receive deposits or to undertake other commercial transactions.[48] Once established, foreign banks can in principle engage in the same activities and are subject to the same prudential requirements as domestic banks. They are subject to the same requirements (minimum capital requirements, prudential regulations and specifications regarding the qualifications of the administrators of the institution) to obtain a license as domestic banks. However, foreign banks established in Brazil before 5 October 1988 are not allowed to open new local branches. Representatives and directors of financial institutions are not required to be Brazilian nationals but must be Brazilian residents. While mode 3 is permitted, subject to conditions, cross-border supply of banking services or mode 1 is not permitted and there are no legal provisions with respect to consumption abroad of banking services.

Foreign participation in the financial institutions has increased with liberalization. In 2007, there were 135 multiple banks of which 43 were controlled by foreign capital and 6 had foreign capital participation. There were also 20 commercial banks of which 8 were foreign banks. There was foreign capital participation in the ownership of about a third of all financial institutions. Among the top 50 banks in the country, 20 are foreign controlled private banks and one is a private bank with foreign participation. With liberalization, the share of total assets of foreign and domestic private banks has increased. Foreign banks hold a little over 20 percent of the banking system's assets. [49] However, notwithstanding some progress in improving efficiency, bringing down interest rate spreads, and improving transparency, problems of operational inefficiency, high delinquency rates and difficulties in accessing credit continue to affect the sector.

47 *WTO Trade Policy Review 2009 Brazil WT/TPR/S/212/Rev.1, p.120 and Trusted Source (May 2009), "The Challenges and Opportunities for Financial Services in Brazil".*

48 *Ibid 47, p. 122*

49 *Ibid 47, p. 120*

Establishment of a foreign life or non-life insurance company is allowed but requires prior approval from the concerned regulatory authority and sanction under the Minister of Finance Act. Authorizations to operate are granted directly by the regulator. National treatment is granted once authorization is received. Foreign insurance companies (except reinsurance) are required to be incorporated in the form of a corporation under Brazilian law. They are subject to minimum capital requirements and like domestic insurance companies, are not permitted to engage in other financial activities. Cross-border supply of insurance services, earlier prohibited, is now permitted. There have been significant changes in the reinsurance industry, with the opening of the subsector to private, including foreign owned reinsurance companies. Reinsurance and retrocession is allowed to be held with a local reinsurer, or an admitted reinsurer based abroad which has a representative office in Brazil and the required authorization from the regulator to carry out reinsurance activities in the country or with a foreign reinsurance company based abroad but without a representative office in Brazil.

(E) RUSSIA

There is significant scope for liberalization and improvements in efficiency and regulatory frameworks in Russia's financial sector. The Russian banking system is characterized by a large number of players (over-banking) but highly concentrated ownership. The 30 largest banks control about 70 percent of the assets.[50] The capital base is also quite low. To encourage consolidation, the government has raised the minimum capital requirement and has also introduced a deposit insurance system. However, administrative barriers as well as non transparent ownership structure of many banks are seen to have impeded mergers and acquisitions in the sector and delayed consolidation.

The state banks dominate the banking system with state owned banks controlling over one third of banking sector assets. Even with gradual privatization of the banking system, the role of private banks in ownership of assets has increased very gradually. There are no limits on foreign bank participation but foreign banks are permitted to operate only through subsidiaries as opening branches is not allowed. At present, there are very few foreign owned banks and their share in banking sector assets is low at around 12 percent.

A major problem faced by the banking system is declining capital adequacy ratios given the growing demand for capital by Russian firms. This places the Russian banking sector at risk given its underdeveloped risk management systems. The government has taken steps recently to address this problem and to ease banks' access to capital. It has allowed foreign banks to buy up to 20 percent stake in any bank without the permission of the central bank so as to permit them to inject capital in the banking system. A law has also been enacted allowing the issuance of hybrid capital instruments to increase the capital base. In addition, steps have also been taken to improve risk assessment and the legal framework for lending. The government is considering legislation to modernize the banking system and is encouraging the adoption of international standards (IFRS) and measures to increase transparency. The central bank has also increased its efforts to monitor the activity of banks to weed out inefficient banks.

The insurance services industry is similarly characterized by fragmentation, with a large number of insurers, but with the top 10 collecting over half the gross premiums. Consolidation is being encouraged with the raising of minimum capital requirements to weed out undercapitalized and unqualified players. As insurance penetration is low, there is scope for growth. However, the sector faces problems of inadequate regulatory frameworks for capital adequacy and solvency, lack of transparency in ownership structures and corporate governance, and lack of efficient distribution networks.

50 *Kononova (February 2011)*

Under its accession commitments, Russia has undertaken obligations to liberalize its financial sector. It has raised the quota on the maximum share that can be held by foreign banks and insurance companies from 15 percent to 50 percent and committed to phasing out the prohibition on foreign participation in mandatory insurance segments. It has permitted subsidiaries of foreign banks, which must be registered as Russian entities.[51] It has allowed 100 percent foreign ownership of banks and financial institutions, liberalized cross border financial services and allowed internal securities trading by foreign firms.[52] However, it has not accorded separate legal status to foreign bank branches as the Russian central bank feels it would not be in a position to regulate or supervise these branches adequately, putting customers at risk. (Hence, Russia today is the only non LDC acceding country which has not made a commitment on bank branches).[53] In the insurance area, it has committed to allowing 100 percent foreign ownership to foreign non-life insurance issuers and will gradually phase-out limits on the number of life insurance licenses granted to foreign firms. Such obligations mark a significant step towards liberalization and could open up the country as a potential recipient of FDI in financial services.[54]

6.3.3 Tourism Services

This is a sector where one finds considerable variation in the policy environment. In South Africa, barring exchange controls and immigration regulations, there are no barriers to foreign entry.[55] A tourism growth strategy has also been launched, which aimed at promoting foreign and domestic investment in the tourism industry.

In India, although steps have been taken in the form of new and revised air services agreements and bilateral tourism cooperation agreements to promote tourist inflows, the sector remains subject to various FDI restrictions and other impediments. Foreign presence is not permitted in the travel agency, tour operator, and tourist transport operator segments of the tourism industry. Foreigners are not allowed to register as regional, state, or local guides. Although foreigners are allowed to provide interpretation services to tourists, there is a limit of 500 interpreters per year.[56] Major international hotel chains typically operate under management or franchise contracts. Due to the various restrictions on FDI as well as the presence of multiple taxes at the state and central level, foreign investment in this sector remains low.[57]

China liberalized the tourism sector prior to making its GATS commitments. In 2008, there were 30 foreign travel agencies operating regularly in China, of which 15 were wholly owned by foreign companies and 8 were foreign controlled. Regulations introduced recently in 2008 have liberalized the entry and operating conditions for foreign agencies. Foreign-invested travel agencies already established in China have been allowed to open branch offices. Foreign natural or legal persons have been allowed to establish travel agencies in China whereas earlier, only foreign travel agencies or foreign enterprises whose core business was in the tourism sector were permitted to invest in China. Foreign-invested tourism agencies have been granted national treatment by lowering the amount of required registered capital. However, foreign-invested travel agencies were earlier not permitted to provide outbound travel services but under

51 Tarr and Volchkova (March 2010), p. 7

52 Griswold and Petersen (Dec 2011)

53 Ibid 51

54 Ibid 52

55 WTO Trade Policy Review 2003 SACU South Africa, WT/TPR/S/114/ZAF, 2003, p. A4-284

56 WTO Trade Policy Review 2011 India WT/TPR/S/249, p.176

57 Ibid 56, p. 178

the revised regulations, they have been allowed to undertake such business subject to government approval and under certain FTAs. A pilot programme is also underway to allow foreign companies to provide outbound travel businesses.[58]

6.3.4 Energy Services

This is a service sector where some there is strong complementarity of interest among some of the BRICS, between supplier countries such as Russia and high demand countries such as India and China. It is also an area where despite the strong potential for growth, considerable regulatory and infrastructural challenges remain. The case of Russia and Brazil are presented here to highlight the nature of the reforms and policies that would be required in future if intra BRICS opportunities in this service sector are to be realized.

(A) RUSSIA

Russia is the world's second biggest oil producer and also holds the largest share of proven gas reserves in the world. [59] It produces and exports more gas than any other country. It is also the world's second largest gas market after North America.[60] Hence, demand and supply dynamics in the Russian market are important for understanding the future of global energy markets.

The gas industry is characterized by a monopoly. Gazprom owns the Russian gas pipeline system and also has a legal monopoly on gas exports. Though there are independent producers in the gas industry, they can only sell domestically. Russia is increasingly looking at new markets such as China and India for gas exports. However, in order to meet growing markets, it will need to expand supply. At present, there is declining supply in the existing fields and three super giant fields which account for half of Russian production are declining rapidly. There is need for investment for exploration of new gas fields, exploiting of new geographical structures in existing fields, and for addressing various technical and practical challenges, along with the need for price reforms and better conditions for independent producers.[61]

The oil industry, unlike the gas industry was privatized in the 1990s and the domestic market for oil and oil products has been liberalized. Although foreign investment is allowed, in recent years, the government has taken steps to increase state ownership of this industry along with imposing restrictions on foreign investment in a bid to increase state control over strategically important sectors in the economy. These steps have been direct and indirect, i.e., combining all state shares into one holding company and using this to buy additional stakes while restricting foreign ownership by legal means as well as using publicity and allegations of legal misconduct (on tax, safety, and environmental lines) to reduce foreign holdings in the industry. Issues of corporate governance and lack of a consistent regulatory framework plague the industry.[62]

Overall, the presence of state monopolies, lack of pro-competitive regulatory frameworks, and inadequate incentives for modernization have led to inefficiencies and hurt prospects for growth in Russia's energy services sector. There is scope for deregulation and liberalization of foreign investment, which could facilitate cross border investment and trade with energy importers such as China and India.

58 *Trade Policy Review 2011 China WT/TPR/S/241/Rev.1, p.83*

59 *Kusznir and Pleines (February 2008)*

60 *Simmons and Murray (February 2008)*

61 *Ibid 60*

62 *Ibid 59*

(B) BRAZIL

Brazil has considerable potential for exploration and production of energy resources. It was listed as the 9th largest oil producer as of 2009, with proven oil reserves of 13.9 billion barriers and growing production in recent years to reach 2 million barriers per day in 2010. Its proven natural gas reserves are 423 billion m3. It also has considerable potential in renewable sources of energy. Brazil's state owned Petrobras company is ranked as the third largest energy company in the world in terms of market capitalization. Brazil's oil exploration and production are expected to grow in the future with further exploitation of pre-salt offshore deposits and heavy investment by domestic and foreign companies. Brazil is expected to emerge as the single largest source of new oil supply outside the OPEC over the next 20 to 25 years.

The regulatory framework in the oil and gas sector has undergone many changes in the past 15 years. Prior to 1997, Petrobras had a monopoly in exploration, production, refining, oil and natural gas trade and transportation, petrochemicals and derivatives, electricity, biofuels, renewable energies and distribution. In 1997, a law was enacted which permitted petroleum exploration and production to be carried out by private companies, following the granting of a concession agreement, after a competitive bidding round. There have been 10 bidding rounds since 1997. Exploration periods of 3 to 9 years have been granted to concessionaires, with the latter being subject to payment of taxes, royalties, rental fees in case of discovery. As a result of this deregulation, as many as 36 foreign companies, including some from other BRICS countries (Sinopec from China and Indian Oil Corporation from India) as well as local companies have entered Brazil's oil and gas sector and are engaged in exploration, production and upstream activities.

There are two regulatory challenges in the sector. The first is that Petrobras continues to dominate the sector, accounting for around 90 percent of crude oil production. Many companies choose to partner rather than compete with it. In part, Petrobras' continued dominance is a result of the new regulatory framework which allowed a recapitalization of Petrobras through a public share offering and a federal government grant of around 5 billion barrels of reserves in unlicensed pre-salt acreage in return for an increased stake in the company. As a result, today, Petrobras is a mixed capital company whose major shareholder is the Brazilian government. The government now directly or indirectly controls 64 percent of all Petrobras common shares and about 48 percent of its preferred shares and political control has increased over the company following the recapitalization. The second regulatory challenge pertains to steep local content requirements imposed by the Brazilian government in this sector. Owing to sensitivities over allowing private participation in this sector and expropriation of benefits by foreign companies, local content requirements have been imposed on companies under the Mobilization Program for the National Oil and Natural Gas Industry. The local content requirement starts at 55 percent, rising to 65 percent in 2016 and with the potential to reach upto 95 percent by 2017. While this ordinance has the potential of generating a large number of jobs (estimated at 640,000 between 2003 and 2009) in the sector and of increasing local participation from $35 billion to $190 billion over this period, it is expected to drive up costs, create production bottlenecks and make it harder for foreign companies to operate in this country. Notwithstanding such regulatory hurdles, however, there is growing interest by foreign companies to enter the Brazilian market, reflecting the growth prospects of this sector.

Given the huge demand for energy in the BRICS countries, Brazil's huge investment requirements in this sector, regulatory changes which permit foreign participation, and the presence of major energy companies from other BRICS in the Brazilian market, clearly, this is a sector with lot of potential for cooperation and commercial engagement among the BRICS. There are synergies in terms of endowments, expertise and needs. But as highlighted above, there are regulatory challenges due to the presence of a state monopoly, local content requirements, uncertainties about the tax and regulatory structure and a high degree of government control over financial and operational decisions.

6.3.5 Summary of reform and liberalization measures

Both similarities and differences emerge across the countries with regard to their approach to liberalization and degree to which they have opened up selected services. The policy environment in tourism services shows considerable variability, with a completely open sector in the case of South Africa to a relatively restricted sector in the case of India. In contrast, in telecom services, largely similar trends and measures are evident across the countries. Policy objectives of providing telecom services at affordable prices, meeting universal service obligations, fostering competition and transparency, and promoting the sector's development in line with the countries' development goals underlie the nature of regulations in this sector in all the countries. It is also evident that despite the entry of foreign providers and competing private operators, incumbent state monopoly operators continue to play an important role in this sector and that issues of regulatory conflict and transparency have affected reforms in this sector.

The financial sector exhibits different levels of liberalization across the countries. It also varies in structure, from a heavily state dominated sector as in the case of India and China to one where the private sector plays a bigger role as in the case of South Africa. However, limitations on foreign participation tend to be similar across the countries, including ceilings on foreign equity participation, authorization requirements, minimum capital requirements, restrictions on the form of establishment, and various ownership conditions. Objectives of financial inclusion, financial stability, social and rural development, efficiency and transparency underlie the regulatory framework and its evolution in all the countries.

Overall, the liberalization process in all the countries is shaped by sectoral interests, sensitivities, market structures, regulatory objectives, and sectoral strengths and weaknesses. In the more regulated and government dominated sectors, there is usually a more calibrated and phased approach to liberalization and private participation, with institution of regulators and gradual relaxation of entry and operating restrictions. Issues of transparency, independence of regulator, public sector dominance, and tradeoffs between commercial and other objectives are prevalent.

7. Negotiating Services Liberalization

The preceding section has highlighted the general trend towards liberalizing services in all the BRICS, especially during the past decade. This liberalization has also been supported by the institution of regulatory bodies and introduction of new or amended legislation. This section tries to assess the extent to which the BRICS have engaged multilaterally and regionally or bilaterally in services negotiations and the extent to which the BRICS this unilateral liberalization has been formally bound by these countries in their multilateral commitments under the GATS and in their commitments under regional and bilateral trade agreements spanning services. The objective is to understand if there is likely to be willingness among the BRICS to enter into plurilateral or bilateral agreements covering services amongst themselves and if so, how far would they be willing to bind in their unilateral liberalization vis a vis other BRICS nations.

7.1 BRICS RTAs

A representative set of bilateral and regional agreements signed or under negotiation by the individual BRICS countries, as shown in Table 32 suggests that there is considerable asymmetry among them with regard to their sectoral and geographic interests. There is also little or no commercial engagement among them under formal legally binding arrangements.

TABLE 32: REPRESENTATIVE LIST OF RTAS IN FORCE OR UNDER NEGOTIATION BY THE BRICS

RTAS in Force/ Announced	Status of RTAs (in force or under discussion, involving multiple BRICS nations)
BRAZIL	
Global System of Trade Preferences among Developing Countries (GSTP)	
Latin American Integration Association (LAIA)	
India-MERCOSUR PTA	Operational since 2009; Agreement covering goods exists; Negotiations underway to expand coverage under goods.
Protocol on Trade Negotiations (PTN)	
Brazil United States Trade and Economic Cooperation Agreement	
Southern Cone Common Market (MERCOSUR)	
RUSSIA	
Armenia - Russian Federation FTA	
Common Economic Zone (CEZ)	
Commonwealth of Independent States (CIS)	
Eurasian Economic Community (EAEC)	
Georgia - Russian Federation FTA	
Kyrgyz Republic - Russian Federation FTA	
Ukraine - Russian Federation	
EFTA - Russian Federation / Belarus / Kazakhstan	Announced
SOUTH AFRICA	
EC - South Africa Trade, Development and Cooperation Agreement	Under negotiation
EFTA – SACU	
Southern African Customs Union (SACU)	
Southern African Development Community (SADC)	
INDIA-SACU PTA	Under negotiation
INDIA	
ASEAN – India Free Trade Agreement	
Asia Pacific Trade Agreement (APTA) (includes China and India in addition to Bangladesh, Korea, Sri Lanka)	Agreement covering goods exists; negotiations underway for significant expansion of coverage to include services and investment
Asia Pacific Trade Agreement (APTA) - Accession of China	
Chile – India Preferential Trade Agreement	Under negotiation
Bengal Initiative on Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)	
Global System of Trade Preferences among Developing Countries (GSTP)	

India – Afghanistan PTA	
India – Bhutan Free Trade Agreement	
India – Japan Comprehensive Economic Partnership Agreement	
India – Malaysia Comprehensive Economic Cooperation Agreement	
India – Nepal Trade Treaty	
India-Thailand Framework Agreement	
India – Singapore Comprehensive Economic Cooperation Agreement	
India - Sri Lanka FTA	
India-Korea Comprehensive Economic Partnership Agreement	
India- MERCOSUR PTA	Operational since 2009; Agreement covering goods exists; Negotiations underway to expand coverage under goods.
India – SACU PTA	Under negotiation
South Asian Free Trade Area (SAFTA)	
South Asian Preferential Trade Arrangement (SAPTA)	
EC – India FTA	Under negotiation
EFTA – India	Under negotiation
SAARC Agreement on Trade in Services	Under negotiation
CHINA	
China-ASEAN Free Trade Agreement	
Asia Pacific Trade Agreement (APTA)	Agreement covering goods exists; negotiations underway for significant expansion of coverage to include services and investment
Chile – China FTA	
Mainland and Hong Kong Closer Economic Partnership Agreement	
China - Macao, China CEPA	
China - New Zealand Free Trade Agreement	
China – Singapore Free Trade Agreement	
China- Pakistan Free Trade Agreement	
China-Peru Free Trade Agreement	
Australia-China FTA	Under negotiation
China-Norway FTA	Under negotiation
Switzerland-China FTA	Under negotiation
The Cross-Straits Economic Cooperation Framework Agreement (ECFA)	Under negotiation [early announcement, signed]
Costa Rica-China FTA	Under negotiation [early announcement, signed]

Source: WTO RTA Database, http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx (accessed on October 11, 2011)
Note: Dark Grey cells denote RTAs which cover services. Light Grey cells denote RTAs which involve two or more BRICS.

Several interesting features can be noted. Firstly, India and China are clearly more engaged than the other BRICS in bilateral/regional agreements. They have entered into or are in the process of negotiating many more RTAs than the other BRICS. Secondly, India and China have demonstrated greater interest in negotiating broad-based agreement covering not only goods but also services and investment. For the remaining BRICS, except for Brazil's Mercosur agreement which covers services, none of the agreements signed by or under negotiation by South Africa and Russia involve services. Third, although both India and China have negotiated several services agreements, their regional orientation seems to differ with India's services inclusive RTAs involving only Asian partners while China's include both Asian and non-Asian (Latin American) partners. Fourth, there are very few agreements between two BRICS countries (only Mercosur-India, India-SACU, and APTA) and even these agreements involve one or more of the BRICS along with other regional partners and not the BRICS alone. Also, none of these agreements currently include services (though expanded coverage to include services is under discussion in APTA). There is also no plurilateral agreement (more than 2 BRICS members) at present (check about IBSA and its status). A final feature that emerges is that most agreements signed by the BRICS are intraregional in nature, involving neighbouring countries. In particular, Brazil, Russia and South Africa are largely focused within the region while India has only recently entered into some cross-regional negotiations. China is by far the most extensive geographically among the BRICS.

Overall, one can conclude from the current level of engagement in RTAs by the BRICS that the scope for intra-BRICS negotiations and more broad-based agreements among them covering services and investment remains untapped. However, the absence of such arrangements, bilateral or plurilateral, among the BRICS may also indicate that these countries do not see each other as significant trade or investment partners in services and may also reflect a lack of realization among them regarding the potential opportunities that may exist in each other's service sectors in future. The failure to deepen integration to include services in the case of Russia, Brazil and South Africa is also in consonance with the relatively lower share of services in their export baskets compared to those for India and China. But clearly given the areas of complementarity in services trade and investment flows among the BRICS and the transnational presence of several BRICS firms in the service sector, there are possibilities for broader service and investment inclusive agreements or bilateral investment treaties among the countries.

7.2 Multilateral commitments in services

The BRICS are members of the WTO and have scheduled commitments under the GATS. The scope and nature of their GATS commitments provide some indication of their likely willingness to participate in services negotiations and to bind in their unilateral liberalization policies. As the following tables indicate, the countries have generally scheduled the same services or additional services under their RTAs compared to that under the GATS. Hence, the BRICS appear to be more willing to expand the scope of their commitments under RTAs relative to the GATS. A similar more liberal stance is visible in their commitments under RTAs compared to those under the GATS. Restrictions imposed in certain modes, especially mode 3 (in the form of joint venture requirements, foreign equity participation limits, or geographic restrictions) have been relaxed or even removed under their RTA commitments. Even the horizontal commitments, which pertain to mode 4, tend to be more liberal under the RTAs in that they go beyond the usual GATS mode 4 commitment categories of business visitors and executives to also include categories such as contractual service suppliers, which are pertinent to developing countries and have been demanded by the latter in the GATS negotiations. However, if one compares the RTA commitments with the extent of unilateral liberalization undertaken in the same services, one finds that the former falls short (with more restrictive conditions, lower foreign equity ceilings, or absence of scheduling).

Table 33 highlights the scope of sectors scheduled by India, China, Brazil and South Africa under the GATS versus in selected RTAs. It indicates that there is scheduling of additional services by India and China under their RTAs. However, no inference can be drawn for Brazil and South Africa as either their schedules of services commitments are not available (as in the case of Mercosur) or there are no commitments in services.

TABLE 33: COMPARISON OF THE SECTORS SCHEDULED UNDER THE GATS AND SELECTED RTAS FOR CHINA, INDIA, BRAZIL, SOUTH AFRICA

		Sectors Scheduled
China		
GATS		Professional, Computer, Real Estate. Other Business, Communication, Transportation, Construction, Financial, Distribution, Education, Environmental, Tourism
FTA/RTA	China-Singapore	All sectors scheduled in GATS; Recreational and Sports
	China-ASEAN	Computer, Real Estate, Other Business, Construction, Environmental, Recreational, Transportation
	China-NZ	Same as China-Singapore FTA
	China-Chile	Professional, Computer, Real Estate, Construction, Distribution, Educational, Environmental, Tourism, Transport, Recreational
	China-Pakistan	All sectors scheduled in GATS; Recreational and Sports
India		
GATS		Professional, Computer, Other Business, Communication, Transportation, Construction, Financial, Recreational, Tourism, Health
FTA/RTA	India-Singapore CECA	Same as GATS plus Distribution and Real Estate
	India-Korea CEPA	
	India-Japan CEPA	
	India-Malaysia CECA	
Brazil		
GATS		Business[Engineering**(professional), Computer and Related, Real Estate,** Management consulting **(Other Business)**], Communication , Construction and related engineering, Distribution, Environmental, Financial, Tourism and Travel, Transport (and Services not listed elsewhere)
FTA/RTA	GSTP	NA
	LAIA	NA
	MERCOSUR-India	NA
	PTN	NA
	MERCOSUR	Covers services but schedule of commitments not provided/available
South Africa		
GATS		Business[Engineering**(professional), Computer and Related, Real Estate,** Management consulting (**Other Business**)], Communication , Construction and related engineering, Distribution, Environmental, Financial, Tourism and Travel, Transport (and Services not listed elsewhere)
FTA/RTA	EC-South Africa	NA
	EFTA-SACU	NA
	SACU	NA
	SADC	NA
	India- SACU	NA

Source: Country-wise Schedule of commitments under GATS and County-wise RTA

Tables 34 to 37 summarize the nature of commitments made by these countries for a representative set of services under the GATS and, where relevant, for these same services under selected RTAs.

TABLE 34: GATS AND RTA COMMITMENTS IN SELECTED SERVICES BY INDIA

Country	GATS		RTAs		Unilateral Liberalization
India	Services Scheduled	Nature of Commitments	Partner Country/ Region	Nature of Commitments	
	Hospital Services	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Foreign equity ceiling of 51%; **Mode 4:** Unbound except as indicated in Horizontal commitments		**Mode 1:** No restrictions for services between two established institutions; **Mode 2:** No restrictions; **Mode 3:** KOREA: Foreign equity ceiling of 74%; SINGAPORE: No restrictions as long as latest technology will be brought in and differential rates for services apply only to foreign persons and not Indians; **Mode 4:** Unbound except as indicated in Horizontal commitments	100 per cent FDI subject to FIPB approval; The health insurance market was opened to private competition in 2000, which permitted both general and life insurance companies to offer health insurance.
	Computer	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Foreign equity ceiling of 51%; **Mode 4:** Unbound except as indicated in Horizontal commitments	India-Korea CEPA; India-Singapore CECA	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in Horizontal commitments	
	Telecom	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Subject to obtaining license from concerned authority; Total foreign equity not to exceed 25% (wire based services). **Mode 4:** Unbound except as indicated in Horizontal commitments.	India-Korea CEPA; India-Singapore CECA	**Mode 1:** Unbound; **Mode 2:** No restrictions; **Mode 3:** KOREA: FIPB approval required; Number of licenses to 2 in each service area; Foreign equity not to exceed 49%. SINGAPORE: Foreign equity not to exceed 49%. **Mode 4:** Unbound except as indicated in Horizontal commitments	FDI ceiling on fixed line basic services raised to 74 percent.
	Distribution (Retail)	Not scheduled	India-Korea CEPA; India-Singapore CECA	Not scheduled	FDI participation of upto 51 per cent permitted in single brand products with FIPB approval. Foreign companies allowed to invest up to 51% in joint ventures

	Banking and Financial	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Only through branch operations; limit of 12 licenses per year; Investments in financial services not to exceed 30% of invested company's capital; **Mode 4:** Unbound except as indicated in Horizontal commitments	India-Korea CEPA; India-Singapore CECA	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** KOREA and SINGAPORE: Subject to RBI approval; Through branches and wholly owned subsidiaries; Licenses to foreignbanks may be denied if stheir share of assets exceed 15%. SINGAPORE: Singapore banks allowed to invest through automatic route up to 74%, but limited to one mode presence, viz. either as a branch or a subsidiary. **Mode 4:** Unbound except as indicated in Horizontal commitments	Public ownership in public sector banks reduced by allowing them to raise capital from equity market up to 49 per cent of paid-up capital; FDI limit in private sector banks raised to 74 per cent under the automatic route including investment by FIIs.
	Tourism	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Foreign equity ceiling of 51%; **Mode 4:** Unbound except as indicated in Horizontal commitments	India-Korea CEPA; India-Singapore CECA	**(Doesn't apply to Tourist Guide services)** **Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in Horizontal commitments	
	Business Services - Research & Development	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Only through incorporation with a foreign equity ceiling of 51 per cent; **Mode 4:** Unbound except as indicated in horizontal commitments.	India-Japan RTA India-Korea CEPA India-Singapore CECA	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.	
	Other Business Services - Management Consulting	Not scheduled in the GATS	India-Japan RTA India-Korea CEPA India-Singapore CECA	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.	
	Construction	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Only through incorporation with a foreign equity ceiling of 51 per cent; **Mode 4:** Unbound except as indicated in horizontal commitments.	India-Japan RTA India-Korea CEPA India-Singapore CECA	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.	

	Transport	**Not scheduled in the GATS**	India-Japan RTA India-Korea CEPA India-Singapore CECA	**Mode 1:** Unbound; **Mode 2:** No restrictions; **Mode 3:** None except as i ndicated in horizontal commitments; **Mode 4:** Unbound except as indicated in horizontal commitments.	
	Horizontal Commitments	**Mode 4:** Business visitors - stay for not more than 90 days; Intra-corporate transferees - Entry for a maximum of 5 years; Professionals - allowed for a maximum of one year, subject to conditional extension.	India-Korea CEPA	**Mode 4:** Business visitors - stay for not more than 180 days; Same as GATS for the other categories.	

Source: Country-wise Schedule of commitments under GATS and County-wise RTA
Note: Mode-wise commitments may tend to vary within the sub-sectors of certain sectors listed above.

The commitments made by India under the GATS and in selected RTAs covering services indicate clearly that India has had a much more liberal approach to liberalizing services under bilateral agreements. It has scheduled some additional services which it had not under the GATS and in general has made more liberal commitments in mode 3 by relaxing foreign equity ceilings, allowing more flexibility in the form of commercial presence, and by allowing preferential access to partners in key services such as banking. However, the RTA commitments in services fall short of the unilateral liberalization undertaken in most services.

A similar picture emerges for China, which too has scheduled some additional services under its RTAs compared to that under the GATS and has also relaxed certain restrictions under its RTAs. However, the difference is not as sharp as in the case of India, suggesting that India has taken a more liberal stance on services under its RTAs than in the multilateral context, reflecting its strong interest in services exports. A further comparison of the two countries also shows that while both have mainly imposed restrictions on commercial presence, China has had a more varied approach across services, making use of equity participation limits, geographic and product restrictions, and a phased approach to liberalization while India's restrictions tend to be more uniform in nature across different types of services. Table 35 shows the commitments made by China under the GATS and under selected RTAs.

TABLE 35: GATS AND RTA COMMITMENTS IN SELECTED SERVICES BY CHINA

	GATS		RTAs	
CHINA	Services Scheduled	Nature of Commitments	Partner Country/ Region	Nature of Commitments
	Medical and dental	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** Foreign majority ownership permitted; Suppliers can establish joint venture hospitals or clinics with Chinese partners; **Mode 4:** Unbound except as indicated in Horizontal commitments	China-Singapore FTA; China-NZ FTA;	Same as GATS
	Computer	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in Horizontal commitments	China-Singapore FTA; China-ASEAN FTA; China-NZ FTA	Same as GATS

	Tele-communication	**Mode 1:** Linked to **Mode 2:** No restrictions; **Mode 3:** Foreign Investments in Joint Ventures shall not exceed 30% for the first year after which it will be expanded to 49%; Geographical restrictions apply only for the first year; **Mode 4:** Unbound except as indicated in Horizontal commitments.	China-Singapore FTA; China-NZ FTA;	**Mode 1:** Linked to Mode 3; **Mode 2:** No restrictions **Mode 3:** Foreign Investments in Joint Ventures shall not exceed 50%; **Mode 4:** Unbound except as indicated in Horizontal commitments.
	Distribution (Retail)	**Mode 1**: Unbound; **Mode 2:** No restrictions; **Mode 3:** Joint Ventures permitted; Geographical restrictions apply; Majority foreign ownership allowed; Restricted to very few products; **Mode 4:** Unbound except as indicated in Horizontal commitments;	China-Singapore FTA; China-NZ FTA;	**Mode 1:** Unbound; **Mode 2:** No restrictions; **Mode 3:** Wholly foreign owned enterprises allowed; No geographical restrictions; Product restrictions apply, but much more liberal than GATS commitments; **Mode 4:** Unbound except as indicated in Horizontal commitments;
	Banking and Financial	**Mode 1:** Restricted only to provision and transfer of financial information and data processing; **Mode 2:** No restrictions; **Mode 3:** No geographic restriction for foreign currency businesses to operate; Geographic restrictions apply for local currency businesses; **Mode 4:** Unbound except as indicated in Horizontal commitments	China-Singapore FTA; China-NZ FTA;	Same as GATS
	Construction	**Mode 1:** Unbound; **Mode 2:** No restrictions; **Mode 3:** Only in the form of JV's with foreign majority ownership permitted. Wholly foreign-owned enterprises will be permitted (within 3 years of china's accession to the WTO) and can only undertake the following four types of construction projects. 1. Construction projects wholly financed by foreign investment and/or grants. 2. Construction projects financed by loans of international financial institutions and awarded through international tendering according to the terms of loans. 3. Chinese-foreign jointly constructed projects with foreign investment equal to or more than 50 per cent; and Chinese-foreign jointly constructed projects with foreign investment less than 50 per cent but technically difficult to be implemented by Chinese construction enterprises alone. 4. Chinese invested construction projects which are difficult to be implemented by Chinese construction enterprises alone can be jointly undertaken by Chinese and foreign construction enterprisehs with the approval of provincial government. **Mode 4:** Unbound except as indicated in horizontal commitments.	China-Chile FTA China-Singapore FTA China-NZ FTA China-ASEAN FTA	

	Transport	**Mode 1:** Unbound (Air transport and Auxiliary services) [Rail and Road transport services have no restrictions]; **Mode 2:** No restrictions; **Mode 3:** Foreign service suppliers are permitted to establish JV aircraft repair and maintenance enterprises in China. The Chinese side shall hold controlling shares or be in a dominant position in the joint ventures. Licenses for the establishments of joint ventures are subject to economic needs test **Mode 4:** Unbound except as indicated in horizontal commitments.	China-Chile FTA China-Singapore FTA China-NZ FTA China-ASEAN FTA	Same as GATS
	Other Business Services- Management Consulting	**Mode 1:** None; **Mode 2:** None; **Mode 3:** Only in the form of joint ventures, with foreign majority ownership permitted. None, within six years of China's accession, foreign firms will be permitted to establish wholly foreign-owned subsidiaries; **Mode 4:** Unbound except as indicated in horizontal commitments	China-Chile FTA China-Singapore FTA China-ASEAN FTA China-NZ FTA	Same as GATS (Mode 3 liberalized, all wholly owned subsidiaries are allowed)
	Other Business Services- Market Research Services	Not scheduled in the GATS	China-Chile FTA China-Singapore FTA China-ASEAN FTA	**Mode1:**Unbound; **Mode 2:** Unbound; **Mode 3:** Only in the form of joint ventures, with foreign majority ownership permitted. Economic needs tests are required; **Mode 4:** Unbound except as stated in horizontal commitments.
	Tourism	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** Foreign services suppliers may construct renovate and operate hotel and restaurant establishments in China in the form of JVs with foreign majority ownership permitted. None, within four years after accession, wholly foreign-owned subsidiaries will be permitted. **Mode 4:** Unbound, except as indicated in horizontal commitments and as follows: - Foreign managers, specialists including chefs and senior executives who have signed contracts with joint venture hotels and restaurants in China shall be permitted to provide services in China.	China-Chile FTA China-Singapore FTA China-NZ FTA China-ASEAN FTA	Same as GATS
	Hospital Services	Not scheduled	China-Singapore FTA	**Mode 1:** Unbound; **Mode 2:** No restrictions; **Mode 3:** Joint Ventures permitted; Majority foreign ownership allowed (70%); **Mode 4:** Unbound except as indicated in Horizontal commitments;

	Horizontal Commitments	**Mode 4:** Managers, executives and specialists shall be permitted entry for an initial stay of 3 years;	China-Singapore FTA; China-ASEAN FTA;	**Mode 4:** 6 months for business visitors; 3 years for intra-corporate transferees; Not exceeding 1 year for contractual service suppliers which is limited to accounting, medical, architectural, engineering, urban planning, computer, construction, education and tourism services.

Source: Country-wise Schedule of commitments under GATS and County-wise RTA.
Note: Mode-wise commitments may tend to vary within the sub-sectors of certain sectors listed above.

The commitments made by Brazil and South Africa under the GATS are summarized in Tables 36 and 37, respectively. While Brazil's commitments in mode 3 tend to be liberal, its commitments are largely unbound in other modes and certain important sectors (computer and related services) are not scheduled. There are also horizontal limitations on commercial presence, in terms of the type of legal entity permitted. South Africa's commitments are generally liberal across modes 1 to 3. In both the countries, among the scheduled sectors, financial and telecom services are subject to more conditions on entry and operating requirements.

TABLE 36: GATS COMMITMENTS IN SELECTED SERVICES BY BRAZIL

Country	GATS	
BRAZIL	Services Scheduled	Nature of Commitments
	Hospital Services	Not scheduled in the GATS
	Computer	**Not scheduled in the GATS**
	Telecommunication	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Distribution (Retail)	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Banking and Financial	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** The establishment of new branches and subsidiaries of foreign financial institutions, as well as increases in the participation of foreign persons in the capital of financial institutions incorporated under Brazilian law, is only permitted when subject to a case by case authorization by the Executive Branch, by means of a Presidential decree. Applying investors may be required to fulfill specific conditions. Foreign persons may participate in the privatization program of public sector financial institutions and in each case commercial presence will be granted, also by means of a Presidential decree. Otherwise, commercial presence is not allowed. **Mode 4:** Unbound except as indicated in Horizontal commitments

	Tourism	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in Horizontal commitments
	Business Services - Market Research and public opinion polling	**Mode 1:** Unbound; **Mode 2:** Unbound; Mode 3: No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Other Business Services - Management Consulting	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Construction	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Access will be granted 5 years after entering into force of Agreement establishing the WTO and no limitations after that date; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Transport	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Horizontal Commitments	**Mode 3:** Foreign service suppliers wishing to supply a service as a juridical person must be organized as a legal entity foreseen by the Brazilian law. A juridical person has full title and responsibility for its patrimonial rights and obligations. An entity earns the condition of private law juridical person when the correspondent incorporation act (By-Laws and/or Articles of Association) is duly filed with the appropriate Entities' Public Registry (EPR). A joint venture may be accomplished by a capital association through the formation of any type of business organization as set forth in the Brazilian law (usually a Private Limited Liability Company - Limitada). A joint venture may also be carried out through a consórcio, which is neither a juridical person nor a form of capital association. A consórcio is used mainly with major contracts for rendering of services. It is a contract of two or more enterprises for a joint accomplishment of one specific undertaking. **Mode 4:** Unbound, except for measures related to specialized technicians, highly qualified professionals, managers and directors. [Duration of stay not stated]

Source: Country-wise Schedule of commitments under GATS and County-wise RTA
Note: Mode-wise commitments may tend to vary within the sub-sectors of certain sectors listed above.

TABLE 37: GATS COMMITMENTS IN SELECTED SERVICES BY SOUTH AFRICA

Country	GATS	
SOUTH AFRICA	Services Scheduled	Nature of Commitments
	Hospital Services	Not scheduled in the GATS
	Computer	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Tele-communication	**Modes 1to 3:** General limitations: There are limitations on the bypass of South African facilities for routing of domestic and international traffic. Telkom is currently acting as a de facto regulator by means of agreements entered into with VANS providers in South Africa. VANS providers can only provide international services with the consent of Telkom SA Ltd. Legislation is currently being proposed to introduce a Regulator who might take over the licensing function. No formal policy exists and applications from international VANS are dealt with on an informal ad hoc basis. This situation may be addressed with the anticipated introduction of a new regulatory regime. **Mode 4:** Unbound except as indicated in horizontal commitments.
	Distribution (Retail)	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Banking and Financial	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Corporate membership of financial exchanges is unrestricted, except in the case of the Johannesburg Stock Exchange. The Minister of Finance may, however, grant permission to a bank or controlling company to issue more than 49 per cent of its shares to such a person, provided that competition is not impaired. This restriction does not apply to the allotment or issuing of shares in a bank or a controlling company registered in respect of that bank, or another bank or an institution which has been approved by the Registrar and which conducts business of a bank in a country other than South Africa. Foreign banks wishing to obtain a controlling interest in a local bank are required to establish a domestic public company. No person (domestic or foreign) shall conduct the business of a bank unless such person is a public company, and is registered in terms of the Banks Act. **Mode 4:** Unbound except as indicated in Horizontal commitments
	Tourism	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in Horizontal commitments
	Business Services - Market Research and public opinion polling	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.

	Other Business Services - Management Consulting	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Construction	**Mode 1:** Unbound; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Transport	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments.
	Horizontal Commitments	**Mode 4:** Unbound, except for the temporary presence for a period of up to three years(unless otherwise specified)without requiring compliance with an economic needs test for natural persons who are categorized as services salespersons, Intra-corporate Transferees, Executives, Managers, Specialists, Professionals.

Source: Country-wise Schedule of commitments under GATS and County-wise RTA

Note: Mode-wise commitments may tend to vary within the sub-sectors of certain sectors listed above.

A comparison of the commitments across all these WTO member countries shows that South Africa has the most liberal regulatory environment. This is in line with the restrictiveness indices highlighted earlier, where South Africa was shown as having the lowest level of regulatory restrictiveness barriers among the BRICS. The wedge between unilateral, multilateral, and preferential liberalization is also evident from the commitment tables and the earlier discussion on liberalization measures in the different countries.

Russia has only just recently acceded to the WTO and so information on its commitments is not as readily available yet. However, reports on Russia's accession process indicate that the business services sector had been under focus in the accession negotiations. Russia has agreed to accord market access and national treatment to a wide range of professionals, including lawyers, accountants, architects, engineers, marketing specialists and health professionals. It has permitted foreign enterprises to operate in the wholesale and retail trade distribution services sector, in franchising, and in express courier services. It has also made significant commitments in the financial services sector, as outlined earlier, such as raising the quota on the maximum share that can be held by foreign banks and insurance companies from 15 percent to 50 percent, phasing out the prohibition on foreign participation in mandatory insurance segments, allowing subsidiaries of foreign banks,[63] and allowing 100 percent foreign ownership of banks and financial institutions.[64] However, it has not permitted the entry of foreign bank branches and is thus the only non LDC acceding country which has not made a commitment on bank branches. Under its bilateral agreement with the US, it has allowed foreign bank subsidiaries to get greater market access and national treatment rights under a bilateral US-Russia agreement.[65] In its bilateral agreement with the EU, it has agreed to end monopoly on long distance fixed line telephone services. Although the EU has sought the rights of EU based companies other than Gazprom to construct a gas pipeline, this request has not been met.[66] Specific commitments made by Russia are, however, not available.[67]

63 *Tarr and Volchkova (2010), p. 7*

64 *Griswold and Petersen (Dec 2011)*

65 *Ibid 63*

66 *Ibid 63*

67 *Tarr and Volchkova (2010), p.7*

Table 38 highlights the commitments made in key subsectors of computer and related services by China, India and Brazil. This sector is chosen as it is one service industry where all the BRICS countries have a keen interest in promoting growth and competitiveness and where, as discussed earlier, there is scope for cooperation.

TABLE 38: COMMITMENTS BY CHINA, INDIA AND SOUTH AFRICA IN SUBSECTORS OF COMPUTER AND RELATED SERVICES UNDER THE GATS AND IN SELECTED RTAS

	GATS		RTAs	
	Services Scheduled	Nature of commitments	Partner country/ Region	Nature of commitments
CHINA				
	Consultancy Services Data processing Services	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments	China-ASEAN FTA; China-Singapore FTA; China-NZ FTA	Same as GATS
	Software implementation	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** Foreign majority ownership permitted; Suppliers can establish joint ventures with Chinese partners; **Mode 4:** Unbound except as indicated in Horizontal commitments	China-Singapore FTA; China-ASEAN FTA; China-NZ FTA	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** Wholly foreign-owned enterprises allowed; **Mode 4:** Unbound except as indicated in Horizontal commitments
INDIA				
	Consultancy Services Data processing Services Database services Maintenance and repair services	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Only through i ncorporation with a foreign equity ceiling of 51 percent; **Mode 4:**Unbound except as indicated in horizontal commitments	India-Korea CEPA; India-Singapore CECA	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in Horizontal commitments
	Software implementation	**Mode 1:** Unbound; **Mode 2:** Unbound; **Mode 3:** Only through incorporation with a foreign equity ceiling of 51 percent; **Mode 4:** Unbound except as indicated in horizontal commitments	India-Korea CEPA; India-Singapore CECA	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in Horizontal commitments
SOUTHARICA				
	Consultancy Services Software implementation Data processing Services Database services Maintenance and repair services	**Mode 1:** No restrictions; **Mode 2:** No restrictions; **Mode 3:** No restrictions; **Mode 4:** Unbound except as indicated in horizontal commitments		

Source: Country-wise Schedule of commitments under GATS and County-wise RTA
Note: Brazil has not scheduled Computer Services in GATS. There are no RTA commitments in services for South Africa or Brazil.

The summary of the detailed commitments for computer and related services indicates that barring mode 4, this is a largely unrestricted sector, including in mode 3. Moreover, under the FTAs, even the few limitations that have been inscribed under the GATS, have been removed. Hence, clearly there is willingness to open up this sector multilaterally and bilaterally making this an area where the commonality of interests and strengths of certain BRICS can be tapped to promote cooperation and cross border trade and investment flows.

But on the whole, the above tables indicate that most of the BRICS have yet to expand their trade and investment agreements to cover services and that it may be premature to expect any formal plurilateral agreements among them in the near future. A more likely possibility is that India and China which have been increasingly entering into agreements with countries across different geographies, may seek to expand their existing arrangements or to enter into new agreements with other BRICS, including agreements which cover services and investment. Analysis of the commitments further indicates that the BRICS may be willing to undertake more liberal commitments in such RTAs, though not necessarily beyond the extent of liberalization already offered under their unilateral policies. It is also worth noting that in several services where there is likely to be scope for engagement, such as in business services or construction, the commitments are either unbound or partial in modes that would be of interest. Some of these services have also not been scheduled. Thus, to what extent any agreement among these countries would cover sectors of strength and complementary interests remains an open question.

8. Current and prospective successful services in the BRICS

Discussion in earlier sections has highlighted that there are a few services where the BRICS exhibit potential as exporters through one or more modes. Some of these are services where there are likely to be complementary interests which could foster trade among the BRICS. Some are services where there are synergies which could foster cooperation among these countries. Moreover, the general trend towards service sector liberalization and regulatory reforms creates opportunities to realize these trade and cooperation possibilities.

The following discussion outlines the policies undertaken by the BRICS in some of these services in order to promote growth and exports. The services discussed here include tourism and financial services for South Africa, transport & logistics and construction services for China, energy and transport services for Russia, IT and business/professional services for India, and energy and business services for Brazil. Each of these services has been selected on the basis of its export prospects in the concerned country, which in turn is either based on the RCA estimates derived earlier for individual services in each country or the information on FDI outflows and presence of TNCs in that service for the country. A point to be noted is that current as well as potentially successful services are highlighted as both can provide useful learning for other countries. For instance, some of the services discussed here cannot be called success stories as their potential remains unrealized and there remain many recognized policy limitations. But even these are presented to indicate the kinds of policies and measures that would be required and how some of the BRICS have evolved their policy formulation and thinking on these services.

8.1 South Africa: Some Promising Services

The earlier discussion reveals that South Africa is not a very competitive player in services. However, given the large share of services in its economy and its significantly liberal regulatory environment compared to other BRICS, there is scope for services to play a bigger role in the country's trade and investment relations. The estimates for revealed comparative advantage in services exports and estimates for growth in services exports indicate two service subsectors where South Africa has potential. These are tourism and financial services.

8.1.1 Tourism[68]

South Africa ranks among the world's top 25 tourist destinations. Its main advantage is diversity including, accessible wildlife, natural scenery, diverse cultures, unspoiled wilderness, scope for special interest activities, internationally well known attractions (e.g., the Kruger National Park); the Cape Peninsula, the Garden Route (200 km of beaches, forests, and mountains; Kwazulu-Natal parks and mountains, including the Drakensberg range; the Sterkfontein Caves (the home of the ancestors of humankind); Robben Island; Blyde River Canon; Cango Caves Western Cape; and the Wine Route, relatively well developed infrastructure and network of national parks, good conference and exhibition facilities, good communication and medical services, and some well known companies which are already leaders in global best practices in niche areas such as ecotourism, The number of international tourist arrivals has grown steadily and the reception capacity (number of rooms) has also increased in the post apartheid period. However, the general view is that growth in tourism has been less than expected due to concerns over safety (crime and health related),[69] insufficient diversification of source markets outside Africa, lack of aggressive promotion of tourism investment and related incentives, inadequate funding, lack of rural infrastructure, lack of appropriate institutional frameworks at the national and provincial levels and failure to accord strategic importance to the sector. [70] The contribution of tourism to employment, small business development, GDP, foreign exchange earnings (though it is among the top few sources of foreign exchange receipts), and other sectors of the economy remains limited thus far.

In May 2000, South Africa launched the Tourism Growth Strategy with the objective of marketing the country internationally as a top global tourism destination. The strategy aimed at increasing tourism arrivals in South Africa by broadening the geographical spread of arrivals; increasing the length of stay; and increasing investment, both foreign and domestic, in the tourism industry. The strategy focused on Africa, the United States, Europe (chiefly, the UK, Germany, France, the Netherlands and Italy), and Asia (China, Japan, India). The Department of Environmental Affairs and Tourism (DEAT), in partnership with the private sector, also formulated a three-year strategy to transform this industry by ensuring support of all government departments.[71]

Under the Tourism Growth Strategy and the government's Reconstruction and Development Programme, tourism is recognized as an important sector in terms of employment creation, helping small businesses, creating economic linkages with other sectors, and promoting environmental sustainability. In the past decade, the government has committed itself to responsible tourism for which several actions have been undertaken in the areas of safety and security, education and training, access to finance, investment incentives, foreign investment policies, environmental management, product development, cultural resource management, air and ground transportation, infrastructure, marketing and promotion, product quality and standards, regional cooperation, and youth development.[72] Some of these initiatives include

68 *WTO Trade Policy Review 2003 SACU South Africa, WT/TPR/S/114/ZAF, p. A4 283*

69 *More new hotels have been built in the last three years than in the previous 20, but almost half of their beds remain unoccupied, The Economist (December 16, 2000) and WTO Trade Policy Review 2003 SACU South Africa, WT/TPR/S/114/ZAF, p. A4 284*

70 *World Tourism Organization (2001), based on WTO Trade Policy Review 2003 SACU South Africa, WT/TPR/S/114/ZAF, p. A4-284*

71 *Ibid 70*

72 *WTO Trade Policy Review 2003 SACU South Africa, WT/TPR/S/114/ZAF, p. A4-255*

working with national and international funding agencies as well as local and international private sector agencies and NGOs to set standards, assigning NGOs with the responsibility of certifying tourism providers and monitoring their performance, actively marketing and promoting the country as a premier tourism destination, providing incentives for tourism providers through government procurement policies, providing preferential access to national marketing funds only to responsible tourism providers, encouraging the development of partnerships between the private tourism sector and local communities, and skill development for the sector. Steps have also been taken to improve the institutional framework for the tourism industry with Amendments to the 1993 Tourism Act.

One of the core areas for policy action has been human resource development, in view of skill shortages and problems of poor service quality which affect this sector. The main policies relating to human resource development have included supporting the provision of introductory/bridging courses to facilitate the entry of previously neglected groups and others; providing scholarships, loans, and incentive schemes to improve access to training opportunities; developing skills programmes and specialized courses for accreditation; creating a dedicated funding mechanism for training based on the experience and practices of other countries such as Australia; supporting the design, marketing, production, and packaging skills of craftsmen; and creating a tourism education and training database, among others.

Another important area for policy action has been access to finance. The lack of finance on favourable terms in the past has hurt investment in tourism development in South Africa. To address this problem, several initiatives have been undertaken, including large capital injections by the government for various projects identified in the implementation strategy; broadening the tourism funding base through a single departure tax; coordinating the collection of tourism levies nationally and providing a share to the provinces; providing access to the RDP and donor funds for the tourism industry especially for small business and community tourism projects, establishing a dedicated tourism development fund to provide funds for tourism enterprises and activities which are not financed by existing state financing agencies, and creating a subsidized financing facility to enable the entry of previously neglected enterprises and groups. The Industrial Development Corporation (IDC) provides medium-term finance in the form of loans, suspensive sales, equity and quasi-equity for the development and expansion of the tourism industry, while the Department of Trade and Industry (DTI) provides financial assistance to the subsector under the Small and Medium Enterprise Development Programme (SMEDP).

There has also been debate about the targeting of incentives, the general view being to move away from a narrow focus on hotels and tourist accommodation towards a broader view of the tourism industry and shifting from tax related incentive schemes towards budgetary subsidies and grants. The government has focused on providing incentives to previously neglected sections of the industry with the aim of increasing and refurbishing accommodation facilities, supporting new tourism ventures, assisting small and medium enterprises, and facilitating community based tourism projects. Foreign investment has been recognized as an important source of financing and for meeting the growth and development objectives of this sector. The aim has been to encourage foreign investment which meets the criteria of investing in rural communities, developing ecotourism and heritage tourism, transferring skills and technology, and partnering with local communities and organizations. However, foreign investment has not been encouraged in small, micro enterprises or ancillary services which can be provided by local businesses. Concessions offered to foreign investors under franchise or package tour arrangements must not result in substantial leakages and must meet acceptable social standards.[73]

73 *OECD (2010) and UN OSAA (2010)*

The overall thrust of the policies to promote growth and competitiveness in tourism services has been to balance economic efficiency, social, environmental, regional, and equity objectives. A broad based approach has been taken wherein a wide range of issues, from skill and capacity building to entrepreneurship, financing, certification and standards, and long term sustainability have been addressed.

8.1.2 Financial services

South Africa's financial sector has undergone significant shifts in policy, from an inward looking sector designed to protect and benefit a few during the apartheid period to one which is deeper and provides a wide range of financial services to previously disadvantaged South Africans. The main challenge faced by the government post apartheid was how to take a first world banking sector with a well established infrastructure and technology but with limited reach to meet the huge unmet demand for financial services in the country. The financial services sector was seen as a critical tool for bridging the gap between the haves and the have nots.

South Africa's financial services sector compares favourably with that of other developing countries. It is seen as having a sophisticated financial services sector by international standards and ranked above its average performance on other economic dimensions. As per the Global Competitiveness Report, South Africa ranked 44th out of 131 countries overall and 25th in terms of financial market sophistication, in 2005. Moreover, as per a World Bank survey, firms in South Africa did not see access to finance or cost of financing as serious impediments to their operations or growth.[74]

The strength of South Africa's financial services sector stems from its well developed and implemented regulatory and legal framework concerning the establishment and operations of domestic and foreign financial institutions across a range of services, including commercial, retail and merchant banking, mortgage lending, insurance and investment. The banking system is well developed and regulated, consisting of a few large banks and investment institutions and some smaller banks. Foreign banks and electronic banking facilities are extensively present. Amendments have been made to legislation concerning exchange controls and entry into the financial market so as to make the country more attractive for foreign investment. Legal and regulatory changes concerning the provision of services to low income households and developments in the microfinance industry have led to greater access for financial services, including the success of the Small Enterprise Foundation.

One of the main positives of the South African financial sector is the international acceptability of financial institutions and systems. The Banks Act is based on similar legislation in the UK, Canada, and Australia. There has been considerable progress in terms of settlement systems and practices, bringing the country in line with international inter-bank settlement systems and risk management procedures. The financial institutions are of sufficient size and capability to compete internationally. Some have wide and growing presence, with good international credit rating. The financial infrastructure is well developed, including a wide range of financial instruments, well developed technology and communication systems, and sophisticated national networks for many financial institutions. The country also has a dominant position in financial services within the region. Human and institutional capacity, though small in size, is of good quality.

There are, however, some weaknesses in the sector, as pointed out in various reports.[75] These include

74 World Economic Forum (2010)

75 Based on a variety of reports on South Africa. See, OECD (2010) and UN OSAA (2010), Cassim (2005) for example.

insufficient availability of capital for entrepreneurial growth, increasing levels of organized fraud, and the high cost of financial services relative to that in advanced countries. There are also human and institutional capacity constraints in terms of poor financial literacy, skill sets and service quality. There has also been some criticism about the regulatory framework in that the financial services sector is seen as being insufficiently and narrowly regulated.

8.2 India's High Performer - The Case of IT-BPO Services

India is known for the success of its IT-ITeS industry. There are four main components to this industry, namely, IT services, business process outsourcing (BPO), engineering services and R&D, and software products. This industry has been the growth driver of India's service sector as well as overall GDP and exports. It has also contributed significantly to the FDI outflows from India and the internationalization of Indian firms.

India's IT and BPO services exports have risen from a mere $754 million in 1995/96 to $9.6 billion in 2002-03, to $47.5 billion in 2009, with the industry's total turnover reaching $70 billion or 6 percent of GDP in 2009. As a result, the IT sector's share in India's total export basket has increased from less than 4 percent in 1998 to around 26 percent in 2010. Within the industry, IT services alone are expected to account for over half of export earnings ($27.3 billion) in 2010, BPO services for another 25 percent ($12.4 billion), and engineering services and software products for another 20 percent of export earnings in this industry.[76]

India's IT-BPO exports cover a variety of verticals, including the banking and financial services industry (BFSI), telecom, manufacturing, retail, healthcare, and travel and tourism. While BFSI remains the most important notwithstanding the financial crisis of 2008, segments such as healthcare and retail have shown rapid growth in recent years. There has also been a gradual movement up the value chain, with a growing number of offshore R&D centres being established in India and a shift towards higher-end services such as business analytics, equity research and market research. Both multinational firms operating in the Indian market through captive subsidiaries and offshore development centres as well as large, small, and medium-sized Indian firms are engaged in IT-BPO services exports. With increased possibilities for IT-enabled services delivery, there has been a gradual shift from a predominantly onsite mode of delivery to a primarily offshore mode of delivery in order to further leverage India's labour cost advantage. According to the AT Kearney Offshore Location Attractiveness Index, India has consistently ranked highest among offshoring destinations, due to the combination of its skill availability, favourable business environment, and low cost. [77] Today, India accounts for 51 percent of the offshore IT-BPO market and is expected to remain an important part of the global outsourcing market in future, notwithstanding emerging competition from other developing countries and regions. [78]

The IT industry's growth has been driven by efforts on the part of both government and industry. The government's forward looking strategy for the ICT sector, coupled with a liberal regulatory environment, telecom sector liberalization, and government support through fiscal and other incentives, have played an important role. Some important steps taken by the government include the launching of the Software Technology Park from India (STPI) scheme in 1988 and the National Taskforce on Information Technology and Software Development (NTITSD) in 1998 to formulate long term plans and to remove obstacles to

76 *NASSCOM Strategic Report 2010, pp. 58-59*

77 *http://www.atkearney.com/index.php/News-media/geography-of-offshoring-is-shifting.html?q=offshoring+india*

78 *Nasscom Strategic Review 2010, p. 9*

the sector's growth followed by the creation of a Ministry of Information Technology in 2000 to promote sector-specific initiatives. Important elements of these schemes include expenditure outlays for improving ICT infrastructure, reduced surcharge for IT companies, and tax exemptions. A Task Force on Human Resource Development was also established to develop long term strategies to increase the supply of professionals for the IT industry. Other important efforts include the lowering of customs duties on IT products and allowing 100 percent foreign investment. Provision of real estate has been another thrust area. The government has taken steps to provide dedicated international quality and reasonably priced real estate in software parks, SEZs and knowledge sector industrial estates to IT-BPO firms. In 2008, a scheme for Information Technology Investment Regions was approved under which each state in India can set up an integrated township for helping the growth of the IT-BPO sector by providing quality infrastructure and investor friendly policies. Flexible labour laws in this sector and the introduction of copyright protection and cyber laws under a comprehensive Information Technology Act introduced in 2000 have further helped it to grow and attract foreign investment.

Government efforts have been influenced and complemented by a pro-active industry association, NASSCOM, which has lobbied the government for business friendly policies. In recent years, NASSCOM has been increasingly focusing on the emerging human resource challenges confronting this industry. It has undertaken initiatives to forge partnerships between the industry and educational institutions to increase the supply of IT professionals, introduced certification programs to improve the quality of the IT taskforce, created a National Skills Registry database for IT-BPO firms, and introduced the Data Security Council of India for monitoring and enforcing privacy and data protection standards in India. [79]

The Indian IT industry's growth experience provides a good example of how pro-active, forward looking and supportive government and industry efforts can capitalize on existing sources of comparative advantage. There are no doubt challenges emerging in India's IT industry, chief among which is the need to improve the supply of quality human capital, followed by the need to improve telecom infrastructure, address regulatory challenges in the telecom sector, promote the domestic market for IT services, foster innovation and movement to higher value added IT services, and spread the benefits and future expansion of this sector to new centres within the country.

8.3 Brazil: Promising Prospects in Software Services[80]

The Brazilian IT industry has expanded rapidly since the 1990s. Till the early 1990s, the IT market was protected for national firms and little priority was given to software production. The development of this industry was till then connected to the growth of its hardware industry and the government's focus was on hardware production. With the abolition of protectionist policies in 1992, software developers received attention from government agencies and subsequently national software companies emerged which began to compete with one another and with foreign companies in the domestic market.

Following liberalization, the software industry was helped by several government programmes. In 1993, the government created a subcommittee of Software Quality and Productivity to introduce international standards and to raise quality and productivity to make the industry globally competitive. The Secretariat of Information Technology was later put in charge of designing and implementing software policy. Training programmes were launched, investment funds were created to support the industry, and guidelines were proposed for government procurement. Software development centres were created in several

79 *Based on various reports on the Indian IT industry*

80 *This section is mainly based on Burzynski, Graeml and Balbinot (2010)*

Brazilian universities under close collaboration between the state, universities and the private sector. Several software research poles developed in the country. The government also introduced programmes to increase exports of knowledge intensive products and services in the 1990s. The Prosoft programme was introduced to support Brazilian software companies selling their products and services overseas. The Brazilian Society for the Promotion of Software Export or SOFTEX was created in 1992, which played an important role in pushing a more outward oriented outlook for the industry and persuading the government to support software exports. The Softex 2000 program was launched to promote, develop and export Brazilian software, though the scale of benefits and the number of companies involved was not large. A trademark "Brazilian Software" was created and attempts were made to build a partnership between the government and industry. The government has also supported local software development and the creation of new software capabilities through e-government initiatives and government procurement policies. E-solutions such as electronic voting and e-filing are cases in point. Local companies such as Vesta have created e-solutions for government which are now being sold overseas. Government programmes like the Society for the Promotion of Excellence in Brazilian Software have enabled the growth of local industry. State sanctioned projects such as the sectoral project for the export of software have helped the internationalization of the industry.

In addition to these government initiatives to develop the industry, domestic market conditions also played an important role. The large domestic market with its sophisticated software demands, especially in banking and telecom, created incentives for innovation and development of unique software solutions. Given the large size of these domestic industries, the software companies benefited from economies of scale in creating products for such clients. Brazilian companies have over time developed distinctive technology and know-how catering to these leading industries. Further, the internationalization of Brazilian companies has led to increased exports of these services as Brazilian firms, which have gone abroad, have contributed to increased demand for maintenance and development of software, support and applications services, back office services, and other miscellaneous services from Brazilian software companies. In particular, Brazilian software companies have emerged competitive in areas of banking, telecom, e-government, business management, data and network security, and large scale customer management systems for the Brazilian private sector and Brazilian government agencies. They have carved a niche in developing software for e-business, ERP and bank automation.

The development of the software industry has also been aided by the entry of foreign investors attracted by the use of IT in retail banks, the country's efficient and modern system of bank automation, advances in internet banking, and the large domestic market for corporate IT (with most of the largest multinational companies in the world being present). Many foreign companies (including some Indian companies) as well as Brazilian companies specialize in providing support services for the international operations of Brazilian and foreign companies. Many foreign companies see Brazil as a base for regional exports of IT services.

Overall, the sector has benefited from a variety of policy-induced, market environment, and domestic demand related drivers. It has also benefited from a well developed telecom infrastructure and growing internet penetration, the large pool of qualified IT professionals, a strong technical and research base and an entrepreneurial environment.

The outcome of these government and private sector initiatives is reflected in the rapid growth and increased market orientation of Brazil's software industry since its liberalization in the 1990s, though international presence still remains limited. The country has moved up in the international rankings as an exporter of software services. In 2005, it had 7,760 companies that were developing, manufacturing, and distributing software and services and this number had risen to over 8,500 in 2009.

However, several problems persist, as highlighted by a perception survey of companies and the government. A perception survey of software exporters in the country revealed that government impediments arising from excessive taxation, lack of adequate financing, and excessive bureaucracy and regulatory delays had constrained their participation in the global market. Slow government processes and lack of information about funding opportunities make it difficult for companies to avail financing which is actually available from government agencies, thus hurting their competitiveness. Although there are projects financed by government which are aimed at supporting exports, entrepreneurs are often not aware of these sources and funds remain unutilized. The survey also reveals that there are no focused strategies to help Brazilian software companies participate in international markets and to change the international perception of Brazil in the software industry despite its success in some niche areas. There is no initiative for the certification of Brazilian software. Many companies still lack CMM and ISO certification which is required for penetrating international markets. Thus, both resources and branding are lacking. Language also imposes barriers due to the low penetration of Portuguese language. Further, the high domestic demand creates an anti-export bias among companies. However, some Brazilian software companies are diversifying outside the region and entering the Asian market, including India and China. Hence, though the Brazilian software industry presents good opportunities, it has not yet been able to emerge as a reliable supplier of quality software products or alter its image globally.[81]

8.4 China: Promising and Well Performing Services

Several services show promise and have been increasing their competitiveness in China. One of these is transport and logistics services, a service subsector that is directly tied to the growth in China's manufacturing and export competitiveness. A second sector that is selected for discussion is distribution services, again related to the growing domestic market for consumption and production in China and highlighting the role of liberalization as a growth enabler. A brief overview of the trends and government policies in both these services is provided here.

8.4.1 Transport and logistics services

China's logistics sector has grown fast due to rapid expansion in industrial activity, growing domestic demand for goods and services, and improvements in transport infrastructure. Between 2004 and 2009, the sector grew annually by around 14 percent, accounting for 6.7 percent of GDP in 2009. [82] Most of the logistics business has been driven by the movement of industrial goods. However, until recently, there were local barriers to entry and inadequate capital availability which were affecting the growth and efficiency of the logistics services segment in China. Recognizing the significance of transport and logistics services for wider economic growth, in recent years, the Chinese government has introduced measures to promote growth in this sector. These measures have been three-pronged.

The first focus area has been market liberalization in order to promote competition and efficiency. In 2005, as part of its WTO obligations, the government opened up the domestic logistics market to foreign investment in order to promote competition and efficiency. Prior to 2005, there were many restrictions on foreign enterprises in the logistics business. With the liberalization of this sector, a

81 *Gouvea (April 2007)*

82 *KPMG (2010)*

number of foreign companies have entered China's domestic logistics sector through acquisitions, joint ventures, subsidiaries and cooperation agreements, attracted by opportunities for market consolidation and efficiency improvements.[83]

A second focus area has been administrative and institutional reforms as well as incentives. The government created a Ministry of Transport (formed by consolidating a number of government departments covering civil aviation, postal services, communications and urban public transportation) in 2008 so as to improve administrative efficiency and coordination among departments for policy formulation and implementation. A combination of regulatory measures was also laid down in the 11th Five Year Plan (2006-2010). In 2009, under the Plan on Restructuring and Developing the Logistics Industry, the government addressed issues such as high road tolls, high fines, limitations on the number of vehicles from certain cities and regions, and regulations targeted at trucks which were seen as affecting the competitiveness of the sector and raising operating costs.

More recently, the government has offered fiscal and administrative incentives to logistics enterprises. New guidelines were issued in 2011 to address problems relating to the high costs of logistics such as road tolls, uneven business tax rates and repeated taxation issues. These guidelines cover 9 areas including, reducing tax burdens on logistics enterprises; providing favourable land policies; promoting convenient vehicle transport; accelerating reform in logistics management; encouraging integration of logistics resources; boosting innovation and application of logistics technologies; increasing investment in the industry; giving priority to development of agricultural product logistics, and improving coordination among government departments. The government now plans to cut fees and road tolls by eliminating tolls on secondary roads, reduce toll gates, restrict the number of tollways, standardize business tax rates for the different parts of the logistics sector to avoid repeated taxation, develop national logistics parks with preferential policies, use old factory buildings and warehouses for logistics facilities construction, encourage logistics firms to go public and to become bigger through mergers and acquisitions and form alliances with small and medium sized firms, invest in construction of logistics infrastructure and provide capital support to key companies, and promote technology innovation in the industry. Thus, a wide range of regulatory issues have been addressed in this sector in recent years.[84]

The third focus area of government policies has been to increase private (domestic and foreign) and public sector investment in this sector. Following the global financial crisis, the Chinese government in its fiscal stimulus package directed a large part of the funding towards infrastructure development. It introduced the Rejuvenating Programme for the Logistics Industry in February 2009 to support this sector's development over the 2009 to 2011 period. Five specific goals were laid down under this programme, including, supporting some large internationally competitive logistics enterprises; modernising the logistics service system and providing the use of new technologies; increasing the share of 3rd party logistics providers; increasing the scale of the industry and its value added contribution; and improving the operational efficiency and reducing the total logistics cost to GPD ratio for the economy. The government has also invested in building toll roads with provincial government funding and private sector investment. Road transport and logistics are being improved by extending the road network, introducing a highway development programme and improving safety standards. On the civil aviation front, there are projects to develop new airports and fleet expansion. The government has also been looking at the issue of carbon emissions, with the intent of incorporating green technology and

83 *http://www.chinaknowledge.com/Business/CBGdetails.aspx?subchap=4&content=19#Thirdpartylogistics3PLinChina (accessed on October 17, 2011)*

84 *http://www.china-briefing.com/news/2011/08/24/china-offers-new-incentives-to-logistics-industry.html (accessed on October 17, 2011)*

developing clean vehicle manufacturing capabilities through improvements in inland waterways and rail infrastructure so as to limit dependence on road transport and resulting carbon emissions. The railway network has received high priority with developments in the high speed rail network and additional investments in rail projects.

Although the government has liberalized the sector and promoted competition, it has also undertaken measures to safeguard the interests of domestic logistics companies. Under the Corporate Income Tax Law introduced in 2008, the government has levelled the playing field between domestic and foreign companies with a uniform tax rate. Preferential tax policies offered to foreign investors have been removed though industry specific tax incentives remain. In 2009, the government introduced a Law of Post in 2009 which gives China Post exclusive rights to deliver packages weighing less than 50 grams within cities and to deliver items less than 100 grams between cities. This was done to protect the interests of state owned express companies by not allowing foreign rivals from running the postal business in China.[85]

The combination of regulatory measures and increased funding have led to consolidation and improved efficiency in this sector. There is a trend towards horizontal integration across provinces via mergers and acquisitions. Foreign players have expanded their activities. Regional hubs have emerged, operational systems have been upgraded and human resource capabilities have improved with increased training of logistics professionals. Domestic players have upgraded their facilities and improved their services to compete with foreign players, with some becoming dominant players at the regional level. Chinese shipping operators have also become more competitive over time with some companies ranking among the world's top fleets in terms of carrying capacity. Improved infrastructure in terms of expressways, airports, seaports and express transhipment centres, the establishment of regional logistics distribution centres, logistics parks, modern warehouses and improved distribution facilities have further helped the growth of the transport and logistics services sector in China.

However, the sector still remains fragmented and further consolidation is possible. Sources of capital are still limited for this industry and are mainly limited to government funding and bank loans. The role of capital markets and private equity would need to become more important over time. Many manufacturing enterprises still operate their own logistics business and are not willing to outsource to third party companies. Localized regulations continue to prevent the logistics system from covering the country and an integrated nationwide regulatory framework for the logistics industry is required.

8.4.2 Distribution services [86]

China's distribution services sector has emerged as a flexible and market driven sector ever since it was opened up as part of the country's accession process to the WTO. In 1992, China opened the distribution sector on a trial basis. Till then, foreign investors had been prohibited from establishing joint ventures or wholly owned foreign enterprises for conducting retail or wholesale business in the country. With its entry into the WTO, China committed to gradual liberalization of wholesale and retail services in a phased manner with the removal of almost all regulations by the end of 2004. It eliminated regulations concerning chain franchise systems and commercial trade, as well as limitations on foreign capital investment, zones, and volume to enable a more competitive environment. This led to the entry of new foreign retail and wholesale enterprises and increased FDI and rapid growth in this sector. Most of the 50 top global retailers have entered the Chinese market through commercial presence and many foreign

85 *KPMG (2010)*

86 *This discussion is based mainly on Ying Fan (2010)*

invested enterprises have established their distribution networks in China. The country has emerged among the top 10 internationalized retail market in the world. Foreign retailers have done very well in the hypermarket format.

This evolution of the sector from its earlier centrally planned and rigid nature has been aided not only by the opening up of the sector but an evolution of its regulatory framework and administrative reforms. Prior to 2003, the regulatory agency for this sector was the State Economic and Trade Commission under the State Council which was in charge of domestic trade. In 2003, this agency was combined with the Foreign Trade and Economic Cooperation Ministry into a single Ministry, the Ministry of Commerce to combine the responsibility for domestic and foreign trade under one government agency. Additional areas of regulation such as competition policy and WTO implementation were also brought under this single agency. Hence, this supervisory body was established to oversee all distribution services in China, while government departments at the local and provincial levels would monitor distribution services within their jurisdictions.

The earlier approval system was also changed. Prior to entry into the WTO in 2001, all applications were to be approved by the central government. However, many foreign retailers had entered the market by getting preferences from local governments, bypassing the central government's approval. As the central government had difficulty in monitoring the local governments and the activities of the retailers, this approval procedure was simplified and streamlined post WTO entry. The central government has since then delegated authority to the local governments wherein foreign retailers are required to get approval from the provincial government departments handling commercial affairs. The approval process requires the foreign retailers to meet certain conditions on size, number of stores, products distributed, and various regional and local restrictions. This delegation of the approval process to the provincial level was aimed at preventing the circumvention of approval procedures.

The government has also introduced certain laws and regulations to allow for a balanced development of the sector and has aimed at providing a level playing field between local and foreign firms. The whole approach has been gradual and phased, starting with a trial period and pilot schemes prior to entry and moving towards regulations covering a wider range of operations. These regulations have included administrative measures on foreign investment in commercial areas, retailers' promotion activities, rules on transactions, commercial franchise management, information disclosure, food safety, anti-monopoly, etc. Restrictions have been maintained on foreign equity participation limits, scope of operations, and form of participation and associated terms and conditions, such as requiring joint ventures to transfer management and technical expertise to local firms. Thus, the measures have clearly aimed at promoting more orderly and controlled growth without stifling competition so as to accelerate reforms in this sector and facilitate the introduction of modern practices to domestic retailers. This phasing in is also evident in China's WTO commitments in this sector wherein the scope, FDI limits and geographic and quantitative restrictions were to be liberalized gradually over the medium term. Since 2004, the restrictions on geographic location, ownership structure, and the number of stores imposed on foreign retailers have been removed. The focus of regulation has now shifted to aligning the establishment of new stores with the commercial development plans of cities and towards encouraging chain operators and expanding scale through mergers and acquisitions, asset restructuring, and franchising and other retail investments. Thus the measures have sought to promote consolidation and scale economies.

The sector has seen more rapid growth, increased efficiency, employment creation, upgrading of skills and improvements in management systems and practices as a result of liberalization. However, problems such as fragmentation of the distribution market across different jurisdictions and disparity across regions, localized regulations and local protectionism continue to hurt the sector.

8.5 Russia: Potential High Growth Services

A review of service sector performance and policies for Russia indicates that there are no really successful services at present. However, there are areas where the country has potential given either its natural or human resource endowments. One such service is discussed here, namely, ICT services, in particular IT services, where Russia can benefit from its pool of highly skilled and qualified scientific and technical manpower (albeit small) and recent improvements in telecom infrastructure.

8.5.1 ICT services

The ICT sector is one of the most rapidly growing sectors in Russia, driven by growing domestic demand. Between 2010 and 2011, the ICT sector grew by 8.4 percent. The sector's growth is expected to exceed that of the overall GDP, thus contributing to a higher share of ICT services in the economy over time.

Within the ICT sector, although telecommunications constitute the largest segment in value terms, IT services have been the fastest growing and the most dynamic. The country exports a variety of IT services including applications development, applications outsourcing (maintenance and management), enterprise applications, research and development services, BPO, call centre services, infrastructure outsourcing services (data centre, desktop, storage, etc.), and embedded development and engineering services. Several leading captive centres of foreign enterprises are located in Russia. It has emerged among the top 10 in high skilled offshore IT services, voice integration, image recognition, virtualization, and mobile communication related software services.

Growth in IT services has been enabled by the establishment of Free Economic Zones which have provided investor friendly conditions for setting up IT businesses in Russia. The industry association, RUSSOFT, has also played an important role by lobbying the government for setting up IT parks, free economic zones, and an export promotion agency, as well as the introduction of better tax laws and a reduction in administrative barriers. The government has also focused on increasing the supply of IT specialists and aligning the professional education system with the needs of this industry to sustain its growth.

In addition to policies and incentives specifically oriented towards the development IT services, the government's overarching strategy for the development of an information society in Russia under its National ICT Policy has also facilitated the growth of the IT industry. The main objectives of this policy include establishment of up to date information and telecommunications infrastructure, using ICT for provision of healthcare and education, developing the training of skilled specialists in this area, and provision of high quality services. Public funding and support have constituted an important part of the National ICT Policy. Through its Federal Target Programme (FTP), the government has focused on improving and spreading the use of ICT with a budget of over 2 billion Euros.[87] Research and development has been a priority area under this programme. Several projects have been supported with significant amounts of public funding for advanced technologies in areas such as information processing, storage, transmission, software development, distributed computing and system technologies. Other large projects that have received federal funding support for R&D have been in areas such as service and software architecture, infrastructure and engineering, embedded systems design, and experimental facilities. The

87 *Markova (2009)*

government had also introduced the Electronic Russia, 2002-2010 program with funding support for ICT development in areas of e-governance, e-learning and e-skills. [88]

Growth in telecom services and the government's efforts to develop telecom infrastructure, increase internet and PC penetration, and open public internet access points have been an important contributor to the growth of the IT industry. The telecommunications sector has shown strong growth in the post 2000 period, with mobile telephony showing the most rapid growth. Telecom has been one of the thrust areas under a series of large Public Infrastructure Programmes launched by the government to improve infrastructure. The government has taken steps to modernize the telecom sector by expanding high speed internet access and telephony. [89] Under the WTO's Information Technology Agreement, it has agreed to allow imports of telecom equipment to enter the country duty free and will also allow foreign telecom companies to operate as 100 percent foreign owned enterprises. [90] As part of its accession, Russia has made a commitment to eliminate anticompetitive practices and cross subsidization between long distance and local calls, which implies de-monopolization of the incumbent operator, Rostelecom and to liberalize the market for long distance calls. (The long distance and international calls markets were liberalized in 2006). Russia has also permitted 49 percent foreign equity participation in the telecom sector (and in several other infrastructure services sectors). It has also begun to introduce supporting regulations and guidelines addressing interconnection issues, transparency and publicity of the licensing process, spectrum allocation procedures, and universal service obligation. Institutional reforms have also been initiated to enable a more efficient and transparent regulatory system in this sector.

However, many institutional, regulatory and infrastructural challenges still remain. At present, the Ministry for Information Technologies and Communications serves as a policymaker cum regulator and there is no independent regulator. [91] The institutional framework has imperfections and suffers from a weak regulatory environment. The creation of an independent regulator, with defined duties and obligations based on telecom laws, is required. Although the quality of infrastructure is improving, it is lower in quality than in other advanced transition countries. Although there is growing competition in the telecom sector and many new entrants, in revenue terms, the main players in the fixed telecom market are still incumbent companies and thus the scope exists for increased competition. In the mobile telephony segment, light regulation has promoted growth. However, there are issues of anticompetitive behaviour from the larger players and fragmentation of the market due to a large number of regional and local operators.

8.6 Lessons from country experiences in the service sector

The preceding overview of the evolution of certain well performing or potentially promising services in the BRICS countries highlight the importance of policy orientation, modalities, targeting, comprehensiveness, balancing, recognizing synergies, and vision. Some of the common elements that emerge from these experiences are listed below.

88 *ICT in Russia: R&D priorities, current situation, trends and forecast. Project Full title: Information Society Technologies to Open Knowledge Russia in Information Society Technologies to open Knowledge. Russia (2008)*

89 *Ibid 87*

90 *Report on The Russian Market: Opportunities for the U.S. Telecommunications Sector; Coalition for U.S. – Russia Trade. September 2010*

91 *The earlier Ministry for Communications was merged with the Ministry of Transport though in 2004, the government returned to two separate ministries for telecom and another for post and information technologies.*

- In all cases, government initiative and prioritization of the sector in the national development strategy has been important. This prioritization has usually taken the form of increased financing and subsidies to the sector, introduction of new export and investment schemes, setting up special zones, setting up or reform of regulatory and administrative frameworks to promote competition and efficiency and streamline processes, subsidies for R&D, development of supporting infrastructure, government procurement policies, and in some cases committing to liberalization and reforms under international agreements (GATS for example).

- There has been a conscious attempt to balance public policy objectives and commercial interests in the course of developing these services. Considerations of universal access, pricing, market segmentation, technology transfer, protection of nascent domestic players and creation of a level playing field between domestic and foreign firms have been important in the adoption of policies and legislative frameworks and thus shaping the growth of these services.

- Another important aspect that emerges is the role of supportive industry associations. The presence of influential, forward looking industry bodies, such as in the IT industry, has been important for the growth process.

- A combination of focused and comprehensive strategies has been successful. While particular segments or activities in a service industry have been targeted under government schemes, these have had to be supported by a comprehensive understanding of the synergies with other parts of the economy, such as the role of telecom infrastructure in developing the IT industry. Outcomes have been better where the approach has been comprehensive in terms of addressing related regulatory, infrastructural, financial, human resource and administrative issues in other supporting areas.

- Alignment of national and local/provincial goals and strategies as well as a mutually supportive relationship between the two levels of government also emerges as an important issue where much of the policy implementation and supervision is at primarily at the sub-federal level.

- Market structure and conditions of competition have also been an important factor in shaping success. Often, the presence of a fragmented industry combined with concentrated ownership has prevented competitiveness and realization of economies of scale. Regulatory measures to encourage consolidation and efficiency, while also ensuring competition from domestic and foreign players through FDI liberalization and competition policy, have been important. In this context, a step by step, phased strategy of promoting competition, such as by gradually lifting operating restrictions on geography or scope, seem to be successful in both signalling intent to liberalize and giving time for local players to improve their competitiveness and for authorities to bring in required supporting legislation and regulatory frameworks.

9. Policy conclusions and a roadmap for cooperation

The BRICS are an increasingly important group in the world economy, in terms of their contribution to global trade, investment, market size and labour force. The preceding discussion has examined to what extent this significance also holds in terms of their contribution to the global services economy and further to what extent there is unrealized potential for engagement among the BRICS, both commercially and through collaborative ventures, in the service sector. The analysis of trends in services output, employment, exports and imports, FDI, and regulatory reforms and liberalization measures clearly indicates that there is potential for deeper commercial and cooperative engagement among these countries in the service sector. The following section summarizes the main findings of this paper and then highlights the specific sectors where there is scope for future engagement and also outlines the possible modalities for this engagement.

9.1 Summary of findings

The review of trends in services output and employment highlights the fact that there is considerable heterogeneity among the BRICS. Although they have all experienced a growing contribution of services to their economies and there is a general upward trend in their service growth trajectories, it is mainly India and China which have experienced rapid growth in services while the performance of the other BRICS has been moderate and less consistent. In terms of their trade performance, there is little evidence of improved competitiveness in services except in the case of India, whose service sector has become more export-oriented and competitive over the past decade, though this improvement is not broad based and is mainly on account of the growth in IT and IT-enabled services exports. For all the BRICS, excepting India, export competitiveness in merchandise exceeds that of services.

An examination of the sub-sectoral composition of services indicates that although services are not a key driver for exports for the BRICS, excepting India, there are complementarities among them in terms of their services export baskets. Some such services include travel and tourism services, construction services, and "other commercial services" such as computer and information services, consultancy services and various professional and technical services. Although the contribution of these miscellaneous business support services to overall services exports is small at present, these exports have been rising rapidly and their shares have increased considerably, while their significance in imports has also been growing, indicating potential complementarities and scope for trade among the BRICS in these services. Thus, there are prospects for greater engagement in both traditional services such as travel, transport, tourism and in emerging services such as ICT, business, and construction services. Moreover, as there is little overlap in their respective areas of strength, the complementarities appear to outweigh the likelihood of competition. However, there is convergent trend in the competitiveness indicators for subsectors such as IT and other business services which means that in future one can expect greater competition in such segments while in the traditional services, there is a divergent trend in their competitiveness indicators indicating that complementarities are likely to be stronger in such segments.

However, what emerges perhaps as the most important area for consideration is FDI, in light of liberalization and regulatory reform measures undertaken across a wide range of services (albeit to different degrees) in all the BRICS. Given the growing importance of the BRICS as both recipients and sources of FDI flows and the emergence of transnationals from BRICS countries, FDI can play an important role in fostering greater engagement among the BRICS. At present, intra-BRICS FDI is very limited, primarily focusing on extractive and natural resource based industries and IT services. However, the data on the nature of outward FDI from some of the BRICS suggests that although there is some degree of competition among them in attracting FDI into areas such as energy, transport and financial services, there is also complementarity among them in some of these same areas as well as other emerging areas such as business services. The emergence of Chinese transnationals in various infrastructure services, Indian multinationals in IT services, South Africa in financial services and the focus on diversification of export markets and increasing South-South cooperation creates opportunities for intra BRICS trade through commercial presence or mode 3, in the form of joint ventures, greenfield investments, and mergers and acquisitions as the transnational data for these countries confirms. The experience of some of the BRICS also indicates that there are potential spillover effects from increased outward FDI in terms of generating demand for supporting business services from their firms and thus also cross border and other modes of exports of related services. Thus, greater engagement among the BRICS through the presence of their transnationals in each other's markets could also foster trade in supporting services through the other modes of supply.

But the analysis also indicates that although FDI promises to be one of the main modalities for fostering cooperation in services among the BRICS, the extent to which this can be realized would be shaped by their regulatory frameworks and the extent of market access granted as well as the post entry operating environment in the service sector of these countries. An overview of their regulatory regimes and liberalization trends indicates that there is considerable variation across the countries and across different services in terms of their market access and national treatment regulations, notwithstanding a general trend towards opening up more services, removing government monopoly and promoting domestic and foreign competition, and institution of independent regulators. Hence, greater cooperation through commercial presence in each other's markets would necessarily require further investment liberalization in many services, possibly enabled by preferential arrangements and bilateral investment treaties which cover services, and other complementary liberalization such as for movement of professionals and cross border services exports that are needed to support transnational activities.

An examination of the current level of participation by the BRICS through preferential trade arrangements covering services, however, indicates that barring India and China, services are not a focus area in their bilateral or regional agreements. Moreover, except India and China, the other three BRICS are more regionally focused. The existing bilateral or plurilateral arrangements involving two or more of the BRICS either do not cover services or are rather loose, informal arrangements more motivated by geopolitical strategic interests rather than specific areas of economic interest. Therefore, an appreciation of the possibilities for mutual benefit arising from integration through services appears to be lacking given the absence of broader service and investment inclusive agreements or bilateral investment treaties among the countries. The pattern of FTAs also shows that there is an asymmetry in interest among the BRICS in terms of pushing for such agreements. An examination of the commitments made by some of the BRICS in services under their RTAs with third countries also raises questions about whether any preferential arrangements among the BRICS would significantly enhance market access and remove other regulatory barriers in their service sectors. Typically, the BRICS have committed less in their RTAs than they have done unilaterally. Thus, ultimately the scope for cross-border FDI among the BRICS would hinge on their unilateral liberalization with any broad-based preferential agreements only providing some stability and predictability in the market conditions but probably not offering greater market access.

Apart from commercial engagement, the experience with reforms and development of the service sector in the different BRICS suggests that there is also potential for cross-country learning from each other's experiences. Successful services in these countries have involved proactive government policies, including support through financing and subsidies, export promotion schemes, R&D, supporting infrastructure, capacity building, human resources, government procurement, streamlining of administrative and regulatory frameworks, liberalization of FDI, and a cross-cutting approach to the development of the sector in terms of recognizing synergies with other parts of the economy, including other services. A supportive relationship with industry bodies also characterizes successful services.

9.2 Looking ahead

Much of what would be needed to foster greater cooperation among the BRICS in the service sector would result from the general process of further liberalization and regulatory reforms in these countries, their growing integration with world services markets, and increased thrust on the part of their governments to promote the service sector and its competitiveness in international markets. However, in order to accelerate the pace of engagement among them, specific steps can be taken proactively.

There are three broad elements that should be part of such a proactive strategy to enhance greater cooperation among the BRICS. These elements relate to establishing or expanding trade agreements to include services, enhancing investment flows in services by addressing investment barriers and through bilateral investment agreements, and cooperating in skill and human resource development to make the service sector competitive. The thrust of the strategy in each of these areas is outlined here. A detailed and comprehensive strategy is, however, not provided as the latter would need to be conditioned by political feasibility and geo-strategic factors.

TRADE AGREEMENTS

The starting point for increasing cooperation could be to widen the provisions of existing trade or other agreements among some of the BRICS to cover the service sector. Hence, arrangements such as the India-Mercosur FTA, the India-SACU FTA and other prospective FTAs involving one or more BRICS could be widened to include services. In addition, the possibility of extending the ambit of initiatives such as IBSA to cover services or related cross-cutting issues can also provide an impetus to service sector cooperation among these countries. A further step in this regard would be to ensure that services of interest are committed and enhanced market access opportunities are realized under these agreements. It would also be important to recognize the synergies between goods trade and services and to explore the scope for using the provisions covering goods under these agreements to create opportunities for trade in related services.

INVESTMENT PROMOTION

A second step would be to encourage cross-border FDI in services through bilateral investment treaties, preferential access under agreements, and through information dissemination about market opportunities in other BRICS. Both industry and government can play an important role by organizing visits of delegations to each other's countries, conducting feasibility studies regarding each other's markets and business opportunities, identifying specific sectors/niche areas for engagement, and through administrative cooperation in terms of creating points of contact and enquiry and streamlining approval and clearance processes. To some extent, the limited level of intra-BRICS engagement today is a reflection of the lack of information and understanding about each other's services markets and both industry and government have to participate to address this problem. The involvement of both industry associations (overarching bodies representing industry interests) as well as service industry specific associations (such as for the IT industry) in the different BRICS countries would be required. It is important to note, however, that cooperation through investment flows would require cooperation on a variety of other cross-cutting issues, in particular, those of taxation, movement of persons, and possibly also subsidies and government procurement policies.

SKILL AND CAPACITY BUILDING

Given the importance of skill and capacity building for developing competitiveness in services, another useful and less contentious area for cooperation would be through training and skill development programmes and even joint research and development activities. In areas such as IT services, project management, engineering, and various professional and technical services, there is scope among the countries to conduct joint studies and training programmes, to foster tie-ups between industry and educational institutions across the countries and to develop pilot programmes in niche areas. Such initiatives would need the financial and administrative support of concerned government ministries and logistical, financial and other supports from concerned industry bodies for developing such partnership schemes and pilot initiatives.

9.3 Concluding thoughts

None of these three elements outlined above are independent of the other. They need to be undertaken in consonance. But more importantly, none of these initiatives can succeed unless governments see the service sector as a sector of strategic importance and unless the governments see the BRICS group as an economic entity worth engaging with.

On this last point there can be some debate. Given the asymmetries in size, especially the growing structural disparity between China and the other BRICS, the differences in their geographic orientation, the inability of the BRICS thus far to come together and take a common stand on important global issues and most importantly, given the growing concerns over China's dominance as reflected in Brazil's fears over the influx of Chinese investment and cheap Chinese imports or Russia's fears over China's growing presence in its neighborhood, is a cooperative future likely? The heterogeneity that is evident in the performance and structure of these economies also raises another important point. One needs to step back and ask, is the concept of the BRICS as an economic entity actually meaningful and relevant?

APPENDIX

Outward Investment by the BRICS

TABLE A1: CHINA: MAIN M&A DEALS, BY OUTWARD INVESTING FIRM, 2007-2009 (US $MN)

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Transaction value
2009	China Investment Corp (CIC)	Nobel Oil Group	Oil and gas	Russia	45	300
2009	Fullbloom Investment Corp	KazMunaiGas Expl & Prodn JSC	Oil and gas	Kazakhstan	11	939
2009	China Investment Corp (CIC)	Noble Group Ltd	Investment	Hong Kong, China	15	854
2009	Investor Group	Cathay Pacific Airways Ltd	Transportation	Hong Kong, China	14.5	948
2009	China Investment Corp (CIC)	Goodman Group	Property development	Australia	8	396
2009	China CITIC Bank Corp Ltd	CITIC Intl Finl Hldg Ltd	Investment	Hong Kong, China	70.3	403
2009	Investor Group	OAO Mangistau MunaiGaz	Oil and gas	Kazakhstan	100	2,604
2009	ICBC	Seng Heng Bank	Finance and insurance	Macau, China	20.1	149
2008	CITIC Group Ltd	CITIC Pacific Ltd	Conglomerate	Hong Kong, China	39.9	1,500
2008	Sinopec	Tanganyika Oil Co Ltd	Oil and gas	Canada	100	2,029
2008	CITIC Group Ltd	CITIC Intl Finl Hldg Ltd	Investment	Hong Kong, China	15.2	855
2008	China Merchants Bank Co Ltd	Wing Lung Bank Ltd	Finance	Hong Kong, China	53.1	2,474
2008	China Merchants Bank Co Ltd	Wing Lung Bank Ltd	Finance	Hong Kong, China	44.7	2,082
2008	China Life Insuance Co Ltd	Visa Inc	Financial services	United States	n.a.	300
2008	Sinopec Intnl	AED Oil-Expl Permits (3)	Oil and gas	Australia	60	556
2008	SINOCHEM Petro Expl & Prodn	SOCO Yemen Pty Ltd	Oil and gas	Australia	100	465
2008	ICBC	Standard Bank Group Ltd	Banking	South Africa	20	5,617
2008	ICBC	Seng Heng Bank	Finance and insurance	Macau, China	19.9	593
2007	Ping An Ins (Grp) Co of China	Fortis SA/NV	Financial services	Belgium	4.2	2,672
2007	China Investment Corp (CIC)	Morgan Stanley	Financial services	United States	9.9	5,000

2007	CDB	Barclays PLC	Banking	United Kingdom	3.1	2,980
2007	Xinjiang Zhongxin Resources	Mortuk Oilfield	Oil and gas	Pakistan	100	250
2007	China Investment Corp (CIC)	Blackstone Group LP	Investment advice	United States	9.9	3,000
2007	Sinochem Petro Expl & Prodn	New XCL-China LLC	Oil and gas	United States	100	228
2007	China Mobile Commun Corp	Paktel Ltd	Telecommunications	Pakistan	88.9	284
2007	CapitaRetail China Dvlp Fund	Capita Retail China	Real estate investment trusts	Singapore	100	260
2007	Absolut Invest AG	Absolut Europe AG	Investment advice	Switzerland	87.1	288
2007	Air China Ltd	CNAC	Transportation	Hong Kong, China	31.6	378

Source: Davies (2010), Annex Table 6, p.p. 12-13 http://www.vcc.columbia.edu/files/vale/documents/China_OFDI_final_Oct_18.pdf,

TABLE A2: CHINA: MAIN GREENFIELD PROJECTS, BY OUTWARD INVESTING FIRM, 2008-2009 (US $MN)

Year	Investing company	Industry	Host economy	Investment value
2009	State Grid Corporation	Alternative/renewable energy	Malaysia	271
2009	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Russia	220
2009	China North Industries Group (NORINCO)	Building and construction materials	Russia	616
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Sudan	1,701
2009	China National Petroleum (CNPC)	Transportation	Myanmar	165.8
2009	China Huaneng	Alternative/renewable energy	Singapore	1,431
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Costa Rica	1,000
2009	China Shenhua Energy Company	Coal, oil and natural gas	Indonesia	331
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Chad	472
2009	Beijing Vantone Real Estate	Real estate	United States	189
2009	China Southern Power Grid	Alternative/renewable energy	Cambodia	300
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Oman	1,656.80
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Iran	1,760.00
2008	Shenzhen Energy Group	Coal, oil and natural gas	Nigeria	2,400
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Chad	1,587
2008	Sinohydro	Alternative/renewable energy	Zambia	400
2008	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Iran	1,206
2008	Khai De International Group	Real estate	Vietnam	300
2008	Citic Group	Real estate	Angola	3,535
2008	Sunshine 100 Groupo	Real estate	Philippines	362

2008	Fujian Longlin Group	Building and construction materials	Philippines	300
2008	Zhonghao Overseas Construction Engineering Limited	Building and construction materials	Nigeria	362
2008	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Vietnam	4,500
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Turkmenistan	414
2008	China Telecommunications	Communications	United States	500
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Niger	1,587
2008	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Saudi Arabia	1,657
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Venezuela	502
2008	Datang International Power Generation	Alternative/renewable energy	Kazakhstan	860
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Syria	1,500
2008	China Power Investment	Coal, oil and natural gas	Myanmar	670
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Turkmenistan	2,200

Source: Davies (2010), Annex Table 7, pp. 14-16 http://www.vcc.columbia.edu/files/vale/documents/China_OFDI_final_Oct_18.pdf,

TABLE A3: INDIA: MAIN M&A DEALS, BY OUTWARD INVESTING FIRM, 2007-2009

Year	Acquiring company	Target tcompany	Target industry	Target economy	Shares acquired (%)	Value (US$ billion)
2008	Oil and Natural Gas Commission	Imperial Energy	Energy and power	United Kingdom	100%	2.8
2007	Suzlon Energy	REpower Systems	Energy and power	Germany	66%	1.7
2008	GMR Infrastructure	Intergen	Energy and power	Netherlands	50%	1.1
2008	HCL-EAS	Axon Group	IT & ITES	United Kingdom	100%	0.8
2007	Wipro Technologies	Infocrossing	IT & ITES	United States	100%	0.6
2007	Rain Calcining	CII Carbon	Energy and power	United States	100%	0.6
2007	DS Constructionsa	Globeleq (Latin America business)	Energy, power, and infrastructure	Bermuda	100%	0. 6
2008	Tata ConsultancyServices	Citigroup Global Services	IT & ITES	United States	100%	0.5
2007	Videocon/Bharat Petro Resources	Encana Brasil Petroleo	Energy and power	Brazil	50%	0.4
2007	Firstsource Solutions	MedAssist Inc	IT & ITES	United States	100%	0.3
2007	Reliance Communications	Yipes Holding Inc	Telecommunications	United States	100%	0.3

2009	Essar Group	Warid Telecom (Uganda/Congo ops)	Telecommunications	Uganda/ Congo	51%	0. 2
2009	Inox India	Cryogenic Vessel Initiatives	Logistics	United States	51%	0. 1
2009	S. Kumar's	Hartmarx Corporation	Textiles and apparels	United States	100%	0.1

Source: Premila Nazareth Satyanand and Pramila Raghavendran (2010), http://www.vcc.columbia.edu/files/vale/ documents/ Profiles_India_OFDI_September_22_Final_0.pdf Annex Table 6, p.15

TABLE A4: RUSSIA: MAIN GREENFIELD PROJECTS, BY OUTWARD INVESTING FIRM, 2007–2010

Years	Company	Destination	Industry & project	Value realized by the end of 2010 (US$ million) a
Since 2008	Sistema	India	Telecommunications — SSTL – 73.7% of shares (Pan-India CDMA mobile telephone communications)	~ 2,000 b
Since 2007	Magnitogorsk Iron & Steel Works (MMK)	Turkey	Construction of two steel works and infrastructure by joint company MMK Ataka (MMK controls 50%)	~ 1,000 c
Since 2010	National Oil Consortium (five equal partners: Rosneft,LUKOIL, Gazpromneft, TNK-BP, and Surgutneftegas)	Venezuela	PetroMiranda – 40% of shares (oil exploration in the field Junin-6)	600
Since 2008	Russian Railways	Libya	Infrastructure connected with the construction of railways	~ 350 d
Since 2010	LUKOIL	Iraq	West Qurna 2 oil field (56.3% of shares in this project)	300
2008–2009	VimpelCom	Vietnam	GTEL-Mobile – 40% of shares (start of GSM 1800 mobile telephone communications)	267
Since 2008	Gazprom	Austria	Construction of the second bloc of gas- holder Heidach (first one was ready in 2007)	~ 250 e
2007–2010	Gazprom	Armenia	Construction of the fifth bloc of Razdan power station	194
2007–2009	Zarubezhneft	Bosnia and Herzgovina	Development of petroleum subsidiary (reconstruction and modernization of refinery and petrochemical destroyed during a civil war, as well as development of petroleum retail network)	171
2007–2010	Metalloinvest	United Arab Emirates	Construction of steel plant Hamriyah Steel (Metalloinvest controls 80% of shares)	150

Sources: Alexey Kuznetsov (2011), Annex Table 7, p. 20 http://www.imemo.ru/en/comments/Kuznetsov020811.pdf

a *The symbol '~' indicates that the amount is an author's estimate.*

b *On the eve of the global crisis, Sistema planned to invest between US$ 4 billion and US$ 7 billion, or even US$10 billion, up to 2017–2020 in Indian telecommunications. In 2009, Sistema scaled down its plans.*

c *The project was announced in May 2007. Construction took place between July 2007 and March 2011. The total joint investment of the Russian and Turkish partners was US$ 2.1 billion.*

d *Russian Railways established a subsidiary and signed a contract in spring 2008 for the construction of railways in Libya. The price of the contract was € 2.2 billion (i.e. about US$ 3 billion). By the time the civil war broke out* *in 2011, about 10–15% of the investment had been made. At the end of 2010, the largest completed object was a rail-welding plant in Ra's Lanuf.*

e *Gazprom, its German subsidiary Wingaz and the independent German partner RAG built the second block of the gas-holder between the end of 2008 and the beginning of 2011. The total investment was € 300 million, i.e. about US$ 400 million.*

TABLE A5 PRESENCE OF REGULATIONS ON FOREIGN ENTRY AND/OR OWNERSHIP LIMITS[1]

Sectors	Countries where regulations are reported
Agriculture and fisheries	Brazil, Canada, Chile, China, Czech Republic, Denmark, France, Iceland, India, Ireland, Japan, Korea, Mexico, New Zealand, Norway, Poland, Russia, Sweden, US
Broadcasting and/or print media	Australia, Brazil, Chile, China, Canada, France, Germany, Greece, India, Italy, Korea, Mexico, Norway, Poland, Russia, Spain, Switzerland, Turkey, UK, US
Defence and/or aerospace	Australia, Austria, Brazil, Chile, Denmark, Finland, France, Germany, India, Korea, Russia, Spain
Energy	Austria, China, Iceland, Korea, Switzerland, US
Financial services	Australia, Brazil, Canada, China, Czech Republic, France, Germany, Greece, Hungary, Iceland, India, Ireland, Italy, Korea, Mexico, New Zealand, Norway, Poland, Portugal, Russia
Natural resources	Brazil, China, Greece, Iceland, India, Japan, Mexico, Norway, Russia, Spain, Switzerland, Turkey, US
Nuclear energy and materials	Australia, Brazil, Canada, Finland, India, Korea, Russia, Switzerland, US
Accountancy and/or legal services	Austria, Belgium, China, Denmark, Finland, France, Greece, Mexico, Norway, Spain, Sweden, Turkey
Real estate	Australia, Austria, Brazil, Chile, China, Denmark, Finland, Greece, Hungary, Iceland, India, Mexico, New Zealand, Norway, Poland, Switzerland, Turkey
Telecommunications	Australia, Brazil, Canada, Chile, China, Iceland, India, Italy, Japan, Korea, Mexico, New Zealand, Russia, Sweden
Air transport and/or shipping	Australia, Austria, Belgium, Brazil, Canada, Chile, China, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Russia, Slovak Republic, Spain, Sweden, Switzerland, UK, US
FDI by state-owned entities	Australia, Iceland, Mexico, Spain, Turkey
General "screening and/or ownership cap" mechanisms	Australia, Canada, China, Iceland, India (substantially reformed), Mexico, New Zealand
National security or public order screening measures	France, Japan, Korea, Mexico, US

Source: Modifications of OECD Countries' Positions under the Codes of Liberalisation of Capital Movements and Current Invisible Operations, OECD Investment Division, July 2009; National Treatment of Foreign-Controlled Enterprises, OECD, July 2009; Freedom of Investment, National Security and "Strategic" Industries, OECD, 2007; OECD Investment Policy Reviews, and national sources

Note: [1] The table provides examples of countries where regulations have been identified from various sources. It is not intended to be a complete assessment of international practice.

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