TRADE IN SERVICES IN BRICS AND FUTURE OUTLOOK

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**Abstract:** Based on the review and analysis on trade in services in BRICS, it is clear that trade in services is both competitive and complementary, and trade in services is likely to play an increasingly important role for fostering future cooperation in BRICS. Besides the service trade in absolute terms, this article also examines their competitiveness over the past decade. Finally, commitments under GATS and the implications of TiSA for BRICS is also analyzed and then come to a conclusion and suggestions for future cooperation.  
**Keywords:** Trade in Services; BRICS; Competitiveness

Currently for BRICS to go further, identification of possibilities for cooperation and greater economic engagement among the BRICS is very important. Complementarity in trade and investment flows is considerable 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 labor-intensive services such as software and business process outsourcing, areas which some of the others 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 and trade. With the growing importance of services in the economies of the BRICS, services sector is likely to play an increasingly important role for fostering cooperation and commercial relations. Services today account for over 50 percent of GDP in Brazil, India, Russia, and South Africa.¹ 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 (Information Technology and IT-enabled 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. Thus there are many possible sources for synergies among these countries in the service sector.

I TRADE IN SERVICES REVIEW IN BRICS

The figures make evident that services growth has helped boost overall economic growth in the BRICS, particularly in the last decade. The growth may be driven by certain internal factors such as economic reforms and liberalization as well as external factors such as globalization and advances in technology. 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,

¹ Based on UN statistics. http://unstats.un.org/
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, there are differences among them in terms of the strength and consistency of their service sector’s performance.

In 2001, services trade across BRICS is not quite obvious: total service trade amounts to $71.9 billion in China, and in India, Russia, Brazil, and South Africa, they are respectively 36.6 billion, 31 billion and 24.5 billion and 9.8 billion. With rapid growth in China and India, China’s services trade totaled $471 billion; next to it is India with 272.8 billion. Brazil’s services trade growth before 2004 is below 10%, or even negative in 2002; Russia’s growth rate is lower than China and India due to the financial crisis, reflected by a substantial decline in 2009. In 2012, services trade in Brazil is 115.9 billion, and 160.5 billion in Russia. South Africa’s trade in services is relatively low, with much volatility, and the overall growth rate is lower than the other four countries. In 2012, total trade in services in South Africa is about 32 billion.

Table 1 shows the change in sector composition of services exports among the BRICS. The data shows that there are both similarities and differences in the pattern of their services exports. All the BRICS, except South Africa, have 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.” Travel services constitute a significant share of total services exports (around 20 percent in all the other countries except India) implying that this is an area of interest for all the BRICS. Importance of construction services also vary considerably 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. For instance, while computer and information services constitute more than half of “other services” exports for India, their share in 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. Other services export in 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. Also 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.

The growth of services imports for the BRICS suggest that there is space to expand 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. It is clearly one area for expanding intra BRICS trade. Another 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 for some other BRICS (China, Russia). Other business service is another potential area for expanding trade and cooperation, as it constitutes a large share of service exports in all countries (except South Africa). Some of the BRICS have both export and import interests in certain segments such as travel and other business services.
Table 1: Share of Different Service Subsectors in Total Services Export of BRICS, 2000 and 2010

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<td>15.5</td>
<td>37.2</td>
<td>33.6</td>
<td>11.9</td>
<td>10.7</td>
<td>12.1</td>
<td>20.0</td>
<td>23.4</td>
<td>11.5</td>
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<tr>
<td>Travel</td>
<td>19.1</td>
<td>18.6</td>
<td>35.9</td>
<td>20.2</td>
<td>20.7</td>
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<td>53.3</td>
<td>26.8</td>
<td>53.0</td>
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<td>0.4</td>
<td>1.4</td>
<td>4.0</td>
<td>3.0</td>
<td>3.6</td>
<td>1.1</td>
<td>4.4</td>
<td>0.7</td>
<td>1.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Construction</td>
<td>0.4</td>
<td>1.4</td>
<td>4.0</td>
<td>3.0</td>
<td>3.6</td>
<td>1.1</td>
<td>4.4</td>
<td>0.7</td>
<td>1.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Insurance</td>
<td>3.3</td>
<td>1.3</td>
<td>0.4</td>
<td>1.0</td>
<td>1.5</td>
<td>1.4</td>
<td>0.4</td>
<td>1.0</td>
<td>8.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Financial services</td>
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<td>1.0</td>
<td>2.4</td>
<td>1.7</td>
<td>4.9</td>
<td>0.3</td>
<td>0.8</td>
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<tr>
<td>Computer and information</td>
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<td>0.7</td>
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<td>3.1</td>
<td>28.3</td>
<td>45.8</td>
<td>1.2</td>
<td>5.4</td>
<td>..</td>
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<td>Royalties and license fees</td>
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<td>1.0</td>
<td>1.4</td>
<td>0.5</td>
<td>0.1</td>
<td>0.3</td>
<td>0.5</td>
<td>1.0</td>
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<td>Other business services</td>
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<td>49.6</td>
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<td>35.8</td>
<td>9.4</td>
<td>8.0</td>
</tr>
<tr>
<td>Personal, cultural and recreational services</td>
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<td>0.3</td>
<td>..</td>
<td>1.1</td>
<td>..</td>
<td>0.3</td>
<td>0.0</td>
<td>0.1</td>
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<tr>
<td>Government services n.i.e.</td>
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<td>4.8</td>
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<td>0.4</td>
<td>0.9</td>
<td>0.6</td>
<td>3.1</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Source: Based on UNCTAD database, http://unctadstat.unctad.org/

Global services imports 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. 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 2: Composition of Services Imports in BRICS, 2000 and 2010(%)  

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<tbody>
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<td>Brazil</td>
<td>25.8</td>
<td>18.1</td>
<td>14.4</td>
<td>16.4</td>
<td>45.4</td>
<td>39.7</td>
<td>28.9</td>
<td>32.7</td>
<td>41.9</td>
<td>38.4</td>
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<tr>
<td>Russia</td>
<td>23.4</td>
<td>26.2</td>
<td>54.5</td>
<td>36.1</td>
<td>14.0</td>
<td>9.1</td>
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<td>28.4</td>
<td>35.8</td>
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<td>2.9</td>
<td>0.5</td>
<td>1.0</td>
<td>0.7</td>
<td>0.6</td>
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<td>2.5</td>
<td>6.9</td>
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<td>2.8</td>
<td>2.6</td>
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<td>South Africa</td>
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<td>2.4</td>
<td>2.5</td>
<td>1.4</td>
<td>4.2</td>
<td>4.3</td>
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<td>8.1</td>
<td>6.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Transport</td>
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<td>2.7</td>
<td>0.2</td>
<td>2.3</td>
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<td>0.7</td>
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<td>0.7</td>
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<tr>
<td>Travel</td>
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<td>2.6</td>
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<td>0.7</td>
<td>1.5</td>
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<td>1.0</td>
</tr>
<tr>
<td>Communications</td>
<td>8.5</td>
<td>4.6</td>
<td>0.4</td>
<td>6.9</td>
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<td>2.1</td>
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<td>Construction</td>
<td>20.6</td>
<td>33.3</td>
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<td>19.3</td>
<td>17.7</td>
<td>7.2</td>
<td>11.6</td>
</tr>
<tr>
<td>Insurance</td>
<td>2.2</td>
<td>2.0</td>
<td>..</td>
<td>1.4</td>
<td>..</td>
<td>0.4</td>
<td>0.1</td>
<td>0.2</td>
<td>..</td>
<td>0.1</td>
</tr>
<tr>
<td>Financial services</td>
<td>6.5</td>
<td>4.6</td>
<td>..</td>
<td>2.8</td>
<td>1.5</td>
<td>0.6</td>
<td>0.5</td>
<td>0.6</td>
<td>2.8</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: Based on UNCTAD database, http://unctadstat.unctad.org/

II. COMMITMENTS OF BRICS UNDER THE GATS

1. Commitments under GATS

Of the 12 services sectors covered under the WTO’s General Agreement on Trade in Services (GATS), specific commitments have been made by Brazil in 7, Russia in 11, India in 6, China in 9 and South Africa in 8 service sectors.²

Table 3 BRICS Commitments under GATS

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Service Sector</th>
</tr>
</thead>
</table>

² BRICS Trade Policies, Institutions and Areas for Deepening Cooperation, Centre for WTO Studies Report, Indian Institute of Foreign Trade, March 2013
### of Service Sectors

<table>
<thead>
<tr>
<th>Country</th>
<th>Specific Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Business, communication, construction and engineering, distribution, financial, tourism and travel, and transportation.</td>
</tr>
<tr>
<td>Russia</td>
<td>Business, communication, construction and engineering, distribution, education, energy, environment, financial, health, tourism and travel, and transportation.</td>
</tr>
<tr>
<td>India</td>
<td>Business, communication, construction and engineering, financial, health, tourism and travel, and transportation.</td>
</tr>
<tr>
<td>China</td>
<td>Business, communication, construction and engineering, distribution, education, environment, financial, tourism and travel, and transportation.</td>
</tr>
<tr>
<td>South Africa</td>
<td>Business, communication, construction and engineering, distribution, environment, financial, tourism and travel, and transportation.</td>
</tr>
</tbody>
</table>


(1) Brazil

Brazil’s specific commitments under the GATS cover only 38 of the 160 services subsectors or seven of the 12 broad areas defined in the WTO Services Sectoral Classification List (MTN.GNS/W/120). The sectors or subsectors covered include business services, communication services, construction and related engineering services, distribution services, financial services, tourism and travel related services, and transport services.

Brazil scheduled horizontal market access limitations on the movement of natural persons, investment, commercial presence and subsidies. With respect to the movement of natural persons, market access is guaranteed only to specialized technicians, highly qualified professionals, and managers and directors working under temporary contracts. Special conditions apply to the appointment of managers to foreign company affiliates. Brazil has also retained
the right to require foreign companies willing to supply a service to be established as a legal entity by Brazilian law.

(2) Russia

In Russia, modern development in services sector dates back to the first part of the 1990s, following domestic reforms, privatization and liberalization of the Russian economy. The economic reforms have created new services sectors and its domestic regulatory system is intended to keep pace with the dynamism of the services markets in Russia.

As part of its accession to the WTO, Russia is bound to make commitments on 11 services sectors and on 116 sub-sectors. Besides financial services, reforms are to be introduced in a number of other sectors. On telecommunications, foreign equity limitation (49%) would be eliminated four years after accession. On transport services, Russia inscribed specific commitments in maritime and road transport services, including on transportation of freight and passengers. On distribution services, Russia would allow 100% foreign-owned companies to engage in wholesale, retail and franchise sectors upon WTO accession.

(3) India

India's leading subsectors in terms of contribution to total value added is financial services, commerce and communications. India is a net exporter of services, a leading exporter of computer and related services including software installation and data processing and a major supplier of back office processing services.

India's Schedule of Specific Commitments under the GATS is limited to commitments in 6 of the 12 services sectors. India took part in the negotiations on financial services and telecommunications and accepted the Fifth and Fourth Protocols to the GATS. As regards horizontal commitments, India has inscribed limitations on the entry and temporary stays of natural persons such as business
visitors and intra corporate transferees. India’s Schedule of MFN exemptions include entries on telecommunications services affecting neighboring countries, audiovisual services, shipping and recreational services.

(4) China

China has made development of the services sector a key element in its national economic growth strategy. China’s 2011-2015 Five-Year Plan sets out the goal of further liberalizing the services sector, promoting the development of international trade in services and attracting foreign investment in the sector. China’s Schedule of Specific Commitments under the GATS covers 9 of the 12 services categories. As regards horizontal commitments, China has limitations on entry and temporary stays of natural persons. One feature of China’s service sector is the presence of state-owned enterprises (SOEs) such as banking, telecommunications and civil aviation. China has adopted some measures to further liberalize services, particularly financial services, telecommunications and tourism.

(5) South Africa

The horizontal commitments on market access contains a limitation on temporary presence for up to three years for those engaged in the supply of certain services, without requiring compliance with an economic needs test; limitations on national treatment relate to local borrowing. South African registered companies with a non-resident shareholding of 25% or more have unspecified limits on local borrowing.

South Africa participated in the extended negotiations on basic telecommunications and financial services, and accepted the GATS Fourth Protocol (basic telecommunications), and the Fifth Protocol (financial services).
South Africa adopted the Reference Paper on Regulatory Principles as an additional GATS commitment.

South Africa grants MFN treatment in services to all WTO Members. The only two MFN exemptions listed relate to financial services and transport services. Members of the Common Monetary Area (i.e. Lesotho, Namibia, and Swaziland) enjoy preferential access to South Africa’s capital and money markets and transfer of funds amongst CMA members is exempt of exchange controls. Also, with Russia’s accession to the WTO, BRICS could unite for better negotiation position in WTO services trade negotiations, strengthen market access negotiations on trade in services. For service in trade rules negotiation, BRICS could achieve common interests through enhanced internal communication on the definitions, goals, scope and applicability of domestic regulation, emergency safeguard measures, government procurement, and subsidy issues.

2. Implications of Trade in Services Agreement

On 5 July 2012, a group of WTO Members, the so-called 'Really Good Friends of Services' (RGFs) agreed to start preparing negotiations on Trade in Services Agreement (TiSA) to reinforce and strengthen the global services market. As of end October 2013, 23 WTO Members are participating in the discussions. TiSA participants account for about 68% of world services trade, however, significant market players, which are among the top 20 services exporters/importers, are not participating in it, including three of BRICS: China (4.4% of world exports and 6% of world imports), India (3.3% of world exports and 3.1% of world imports) and Brazil (1.2% of world exports and 2.4% of world imports).

Discussions on the TiSA have been intensive over 2013. The focus is on framework of rules (e.g. on data flows, state-owned enterprises) and on

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3 They are: Australia; Canada; Chile; Colombia; Costa Rica; the European Union; Hong Kong, China; Iceland; Israel; Japan; Korea; Liechtenstein; Mexico; New Zealand; Norway; Pakistan; Panama; Paraguay; Peru; Switzerland; Chinese Taipei; Turkey; and the United States
liberalization modalities (i.e., negative vs. positive list approach to scheduling commitments, or a combination of both). This initial market-access offer takes the form of a hybrid approach that builds on the GATS, but that provides for commitments on national treatment to be undertaken for all service sectors on the basis of a negative list.\(^4\)

China and Uruguay have formally asked to join the negotiating group. However, TiSA is also a hint to BRICS. The BRICS can integrate the existing resources, current regional cooperation to enhance the content of the service trade cooperation, and start the service trade negotiations to reach BRICS’ agreement on trade in services. Developing countries, on the other hand, is the BRIC platform and potential market for the sustainable economy development. As the largest developing countries organization in the world economy today, the BRICS countries would also make efforts to develop a foreign aid system, as well as actively lead the liberalization of trade in services in developing countries.

**III COMPETITIVENESS ANALYSIS FOR TRADE IN SERVICES AMONG BRICS**

Growth of trade in services is larger in China and India; however, they are not necessarily the most competitive countries in BRICS. This section examines two indicators of competitiveness concerning trade in services.

Revealed Comparative Advantage (RCA) \(^5\) for services in trade set off fluctuations originating from one country’s total export and world total export, and can better reflect the comparative advantage of services export compared to the world’s average level. RCA measures a country’s exports of a commodity relative to its total exports and to the corresponding export performance of a set of countries. If RCA>1, then a comparative advantage is revealed. If RCA<1, then a comparative disadvantage is revealed. Figure 1 shows that in BRICS, India is the

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\(^5\) The concept of revealed comparative advantage (RCA), formulated by Balassa (1965), can be written as: \(RCA=(x_{ij}/x_{it})/(x_{nj}/x_{nt})\), where \(x\) represents exports, \(i\) is a country, \(j\) is a commodity, \(t\) is a set of commodities and \(n\) is a set of countries.
only one with RCA bigger than 1. While India RCA reached peak in 2006, it was followed by a decline during 2007-2009, in 2010 India recovered to its 2006 level. As for Russia and Brazil, RCA has been stably negative close to 1, while China’s RCA has been gradually declining. South Africa’s RCA has been quite volatile, but higher than Brazil, Russia and China.

**Figure 1 RCA among BRICS (2000-2010)**

![Graph showing RCA among BRICS (2000-2010)]

Sources: Calculation based on WTO International Trade Statistics 2011

RCA only takes into consideration of the relative weight of a service sector, but not its import counterpart. To incorporate the influence of import, Thomas L. Vollrath introduced Relative Trade Advantage index\(^6\) in 1998.\(^7\) In figure 2, only India has the RTA as positive for most of the time, other BRICS are all negative. Generally speaking, RTA in Brazil rises after the fall during 2000-05. RTA in Russia stayed stable during 2000-05, and experiences a rise till 2010. China’s RTA has been increasing during 2000-04, but dropped down after 2005 to the lowest level in 2009 (about -0.2198). China’s RTA has recovered a little in 2010.

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\(^6\) Relative Trade Advantage (RTA), which accounts for imports as well as exports. It is calculated as the difference between relative export advantage (RXA), which equates to the Balassa Index, and its counterpart and relative import advantage (RMA): where RTA = RXA-RMA, "RTA`=\{xij /xjt\}-(mij /mnt)`\}, x represents exports, m represent imports, i is a country, j is a commodity, t is a set of commodities and n is a set of countries. RTA>0 refers to relative trade advantage, and RTA<0 refers to relative trade disadvantage.

TRA in South Africa has been zigzag for the decade, generally better than Brazil, Russia and China

**Figure 2 RTA among BRICS (2000-2010)**

![Diagram showing RTA among BRICS (2000-2010)]

Sources: Calculation based on WTO International Trade Statistics 2011

**IV. REFORM AND LIBERALIZATION OF TRADE IN SERVICES IN BRICS**

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 to meet universal service obligations and foster competition and transparency underlie the nature of regulations in this sector in the BRICS. It is also evident that despite the entry of foreign providers and competing private operators, state-owned 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 mainly 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 sector interests, sensitivities, market structures, regulatory objectives, sector competitiveness. 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.

V. Suggestions for Future Cooperation Mechanism

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. However, in order to accelerate the engagement, specific steps can be taken proactively. 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. A further step in this regard would be to ensure that services of interest are committed and enhanced market access opportunities are realized. 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.

First of all there is a solid foundation for future cooperation in Trade in Services among the BRICS. Based on the actual economy and trade development level in BRICS, services trade is both competitive and complementary. Because of the BRICS countries are all in a stage of rapid economic development, they have similar interests and appeals in the international market, so there is cooperation basis. Therefore, except certain always deficit service sectors, BRICS have a lot of service sectors that characterizes with alternative trade surplus and deficit, which indicates strong complementarity.

Secondly, the BRICS need to construct multi-level plus multi-field Dialogue Mechanism, and incorporate Trades in Services Cooperation Mechanism. Cooperation mechanism is the strategic choice by BRICS in order to realize social and economic development. Currently, the mechanism mainly includes the BRICS Leaders Summit, Finance Ministers Meeting and Central Bank Governors Meetings. BRICS need to gradually turn the focus from macro to micro field on specific economic and trade issues. There should be more multi-level and multi-field Dialogue Mechanism, including regular minister meetings, business community dialogue, and dialogue mechanisms on particular economic or trade issues. Future cooperation should cover finance, insurance, travel, information services, and so on. Strategic dialogue mechanism in services trade will facilitate the regular consultation, coordination and communications, and come to concrete results and documents.

**REFERENCE**

2. BRICS Trade Policies, Institutions and Areas for Deepening Cooperation, Centre for WTO Studies Report, Indian Institute of Foreign Trade, March 2013
