

# WORLD TRADE ORGANIZATION

RESTRICTED

**WT/WGTI/W/3**

17 June 1997

(97-2479)

**Working Group on the Relationship  
between Trade and Investment**

Original: English

## COMMUNICATION FROM INDIA

The following communication, based on a statement made by the representative of India at the first meeting of the Working Group, has been received from the Permanent Mission of India with the request that it be circulated to Members.

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This Working Group has been established by the Singapore Ministerial Declaration and it is obvious that it is the responsibility of this Group to implement, in letter and spirit, the mandate given to it by the Ministers. It is well known that in the run-up to the Singapore Ministerial Conference, India had expressed a general concern about the over-burdening of the WTO agenda with new subjects when Members are struggling with the implementation of the commitments already embodied in the various WTO Agreements.

However, at Singapore, in light of the collective wisdom of the Membership of the WTO, India agreed to the proposal to initiate a study process in the WTO in respect of certain subjects. On the specific topic of investment, India has consistently pointed out that this is an extremely complicated subject and that there is a need to study the subject carefully without any predetermined conclusions and that only after the educational process was completed can an informed view be taken on the matter. It is worthwhile recalling in this context that even the developed countries, who were anxious to have this subject brought into the WTO quickly, had stated on more than one occasion during the run-up to the Singapore Ministerial Conference, that they also do not have adequate knowledge about all the aspects of the trade and investment issue and that it is in the interest of all WTO Members to have an educational process.

The Singapore Ministerial Declaration has been carefully drafted with a view to clearly define the parameters of work in this Group. This Working Group has been charged with the responsibility of examining the relationship between trade and investment. The Declaration specifically mandates the Group to ensure that the development dimension is fully taken into account. The Declaration also links the educational process on the subject of the relationship between trade and investment to the existing WTO provisions on matters related to investment in general and to the TRIMs Agreement in particular. The Declaration also recognizes explicitly the relationship between the work in this Group and the work in the Group on Trade and Competition Policy and specifically states that the two Groups should draw upon each other's work.

In light of the fact that the primary role of this Working Group is to facilitate an educational process aimed towards studying the relationship between trade and investment, it is necessary for the Group to ensure that there is a clearly defined syllabus which should be studied. This syllabus should be comprehensive, with all the topics to be covered by the syllabus carefully sequenced. The aim should

be to ensure that all WTO Members are better informed, at the end of this educational process, about the various aspects of the relationship between trade and investment and other related matters.

### First phase

1. The first and foremost element of our study, which India would like to describe as the core element, should be the relationship between trade, investment and development. While signing the Agreement Establishing the WTO, Members recognized that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand. They also recognized the need to keep in focus the needs of economic development of developing countries. Therefore it is obvious that any work in the WTO, whether on trade or investment, or whether on trade and investment, cannot be divorced from the needs of economic development of the developing countries. The underlying objective, from India's perspective, of any liberalization should be development of under-developed economies and, as far as India is concerned, whether it is trade or investment, these issues are relevant to it only to the extent they serve the objectives of development. Therefore, the development dimension should not be viewed as an "add-on" for the various elements of the work programme but should be viewed as the very basis and rationale for the Group's work. The development perspective should pervade every element of our work programme. In short, the development perspective should be the all-pervasive element of our study.

2. In India's view, after getting some initial insight into the relationship between trade, investment and development, the Group should try to understand the effect of trade and investment on a variety of economic variables such as imports, exports, intra-firm trade, domestic savings, fiscal balance, balance of payments, etc.

3. The third area of the Group's study should relate to the implications of foreign direct investment for technology transfer and domestic capacity building, which are of critical importance from the point of view of developing countries.

4. The fourth area of the Group's study should relate to the relationship between foreign direct investment and policies of national governments with regard to industrialization. One important aspect of this examination would be the impact of foreign direct investment on the freedom enjoyed by the national governments in pursuing their own national industrialization policies, especially policies designed towards specific regions and specific sectors.

The four elements of the work programme outlined so far, which can be described as the first phase of the Group's work, essentially amount to an initial examination of the relationship between trade and investment and also the relationship between trade, investment and certain other parameters.

### Second phase

5. In the second phase of the work of this Group, the initial examination carried out in phase one should be followed up by drawing upon the deliberations in the Working Group on Trade and Competition with a view to understanding the relationship between investment and competition policy at the national and international levels. This could be treated as the fifth element of the Group's work programme. In the light of the mandate given to us by the Ministers, India proposes that the Working Groups should, at an appropriate time, have joint sessions to examine the issue.

6. The sixth element of the Group's work programme should relate to an examination of how trade and investment have been dealt with in the existing WTO Agreements, such as the TRIMs Agreement and the GATS. The paper by the Secretariat could be a starting point in this programme.

As a part of this, there should be an opportunity to examine experiences in relation to the TRIMs Agreement.

7. As the seventh element of the Group's work programme, the Group should turn its attention to how the issue of trade and investment has been examined in other fora, with the awareness that no other international forum has the unique character of the WTO. Therefore the manner of handling this issue in other fora can be considered by Members only as an input for facilitating discussions in this Group, and not as a model to be emulated.

8. The eighth element of the Group's work programme should relate to the experiences of a number of countries with different levels of industrial development and income in the area of trade and investment. This should include the strategies adopted by these countries to reconcile the national development needs and the interest of investors.

### Third phase

9. In the third phase of the programme, the Group should try to deal with some of the broader aspects of the relationship between trade and investment. The ninth element in its work programme could be the implications, for developing countries, of the business practices and corporate strategies of transnational corporations who are primarily responsible for the flow of foreign direct investment.

10. The tenth element of the Group's work programme should deal with the determinants of flow of foreign direct investment. It may be worthwhile to examine the interrelationship between various kinds of foreign investment, especially because, as pointed out by an eminent expert, 90% of the transnational corporations' financial transactions do not serve what economists would normally consider an economic function.

11. Besides, it would be worthwhile having an idea about the true nature of the current globalization by looking at mobility of the different factors of production. Therefore India suggests that the eleventh element of the work programme should be an examination of the interrelationship between various kinds of foreign investment as well as the interrelationship between mobility of capital and mobility of labour.

12. The twelfth element of the work programme could deal with the rights and obligations of home and host states and investors.

The most important point to be kept in mind is that the Group should embark upon its study process on the relationship between trade and investment in "an open and non-prejudicial manner".