Research Paper Management

A Study on Agreement on TRIMs and India

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ABSTRACT

WTO has provided Trade Related Investment measures (TRIMs) for global level investment. TRIMs are government FDI measures that have an effect on trade pattern, volume and flows. Many countries introduce TRIMs to manoeuvre FDI activities in a way to be benefited the trade performance of their countries. The present study describes TRIMs, its Agreements and Discusses its, pros and cons

KEYWORDS WTO, TRIMs Agreement, FDI

Introduction:
The principles of World Trade organizations emphasizes free trade principles, transparency in trade management, removal of trade barriers, preferential treatment for developing countries regarding technology and financial aspects, rule based trading system with competition and environmental protection for sustainable growth(Cherulinam,2007). As such, India is capital-deficit and Technology lacking country; it is accessory to know provisions made by WTO under TRIMs. After 1991, India has followed Liberalization, Privatization and globalization policy to boost our global trade. The Nature of Finance in the form of FDI, equity investment and technological collaborations have bridged missing link in modernization of various

What is TRIMs?
'Governments always focus on certain conditions on foreign investors to encourage investment in according to certain national priorities. these Conditions which can affect trade are known as trade-related investment measures or TRIMs(Kennedy, 2003)

Foreign Direct investment is regulated by performance requirement such as (local content requirement, local manufacturing, export performance and technology transfer requirement.). The government also aims at investment incentives such as loans and tax rebate now as (financial incentives and fiscal incentive). It is necessary that performance requirement need to ensure foreign investment contributes to the host countries development and consistent with policy goal. When these incentives are related to trade in goods, they are called TRIMs.

One can define like this Trade Related Investment Measures deals with preparations duties and functions of host countries similarly code of conduct for the host country for development of Trade Related Investment.

Revision of original provision and operation of GATT articles to the trade restriction and trade distorting effect of investment measures. Moreover, negotiation of the trading partner or countries should elaborate appropriate further provision to avoid adverse effect of trade. WTO Provision of TRIMs aims at promoting the expansion and progress of world Trade liberalization so as to facilitate investment across the countries, which have free trade with competition among WTO members and Trade-led-growth. This may bridge the gap between the rich and poor. TRIMs aim to recognize certain Investment measures, which can cause trade restriction and distorting effects. Provisions of TRIMs Articles are pertaining to goods only. The Agreement did not define TRIMs, but provided an illustrative list in the Annex.

TRIMs Agreements
The article I show agreement applies to "Investment Measures" for trade in goods. Under this article investment measures are described to remove subsidies. There are indirect effects of investment decision of host countries. There are problems of internal taxes barriers to investment decision as well as production and marketing of the product. Therefore, "investment measures" indicate that TRIMs agreement is not limited to Foreign Investment, which is not limited to first investment but to suggest rationality of the ownership of enterprise.

With regard to "investment related to trade" several issues came before WTO secretariat. One of the issues related with trade is people always favour the use of domestic product over imported product enhance its affect trade. WTO has also provided guideline as a separate analysis on a measure, which is related Trade and its investment measures.

Article II describes National Treatment and quantitative restriction under the TRIMs. This has taken from GATT 1994.

Article III shows all exceptions under GATT1994 to be applied to appropriate to the provision of TRIMs given by WTO.

Article iv shows provision for the developing countries to be free to deviate temporarily form the provision of Article-ii to the extent and in such a manner as given in GATT agreement about investment. These are related with Balance of payment provision and the declaration on trade measurement taken for balance of payment purpose.

Article V of TRIMs is related with notification and transitional arrangement, It is necessary for country application of TRIMs in general and specific application to be notified along with their principle features. Each member of WTO need to eliminate all TRIMs, which are notified within two years of the date of entry into force of WTO agreement for developed countries, within five years for developing and seven years for the least developed countries. During the transition period, a member can't modify any of TRIM which is notified for the application of the article. The council for trade and goods adopted a standard format for notifications are required under this article.

Article VI discussed transparency in the transaction, with respect to TRIMs member countries commitment to obligation on transparency. This article also express behaviour of member for information, afford adequate opportunity for consultation on any matter arising from TRIMs.

In the article VII committee on Trade Related Investment

Measure showing responsibilities assigned to the committee's by the council for trade in goods. It is also showing the operation and implementation of the increments.

Article VIII shows provision for consultation and dispute settlement machinery. WTO has provided a detail guideline. For settlement of disputes among member countries, the provisions are as per article XII and XIII of GATT1994.

Article IX is showing that after five years of the entry of WTO agreement for the member. TRIMs are reviewed by the council of trade and goods. The council reviews implementation of the provision on treatment policies and competition policy in a right perspective.

TRIMS for India must consider certain national priorities, direct investment in India must encourage and the government must be ready to impose condition for this. The agreement of TRIMs has prohibited five types of measures as they are considered to be consistent with GATT rules of" national treatment". These are rules against value of "quantitative restriction", looking to requirement of "domestic content" and "export performance" for which five years transition is given.

Domestic content is useful for countries like India largely due to:

1. Encourage domestic activities in raw material and intermediate input sector, up gradation of input sectors,
2. Prevention of wastage of foreign exchange in input of few raw material and intermediate input,
3. Encourage linkage of FDI with domestic economic activities,
4. Encouraging internalization of FDI,
5. Acting in several of the ways as important instrument in development process. Such requirement needs to be useful from balance economic growth, export performance and national development.

Therefore, the government of India requested WTO to review again these provisions in the TRIMs regarding growth of the developing nation as well as to manage the BOP stability. For this, the government of India proposed to the WTO to extent transition period for Implementation of TRIMs and channelized investment in such a way that investment may fulfil higher growth rate goal of India.

Reaction of TRIMs relaxation by WTO member, they felt inconsistencies of the TRIMs. The following changes were found subsequently necessary in the case of India. :

- WTO allowed deviating from BOP ground for the developing countries including India,
- With regard to Article V of TRIMS changed as local content requirement (mixing requirement) in production of new print, local content requirement in the production of some medicines,
- Dividend Balancing requirement in the case of investment in 22 categories of consumer goods,

Now it is declared by India that none of the measures were in force initially but India has not having outstanding obligation under the TRIMs agreement.

Benefits of agreement:

1. It brings transparency by notifying nature of TRIMs and obligation related with WTO.WTO is quasi-judicial system to eliminated notified TRIMs and end of agreed transition period.
2. TRIMs have acknowledged a policy internalization-ship between investment and competition within the multilateral trading system. The agreement very useful to the member of developing countries in the form of they are fully utilized for efficient contribution of investment in their growth process.
3. TRIMs as allowed to small firm to expand to full competitive scale and can be used to channel for FDI to bring Infant industry to maturity stage, as a result such mature industries able to increase domestic employment and value added.
4. In case of transnational corporation TRIMs are used to guard against encounter anticompetitive and trade restrictive practice. Removal of restriction would help to attract FDI Inflow.

Limitations

1. WTO agreement on "national treatment" is one of the important principles. It prescribes the obligation that an imported product should be treated as a national product. That means there should be no discrimination between domestic and imported products. However, TRIMs like local content requirements and trade balancing requirements violate this principle.
2. TRIMs have a negative impact on the economic efficiency of a foreign operation in a country. It is because under LCRs, foreign investors are forced to use the local resources, which do not have comparative advantages, as their inputs
3. The TRIMs agreements have no rules solve the issues. There is no provision for repatriation of capital or free movement of labour. The agreement have not discussed about compensation issues for the trading partner in the prevention of loss and damage in handling trade.
4. TRIMs agreement is deficient as it shows that outcomes of investment measures and ignore causes of imposition of TRIMs in other world it has not discuss benefit distorting practices of Multinational Corporation.

Conclusion:

The foregoing points of TRIMs agreement reveal that WTO has powerful role to manage FDI in general and specific investment in particular. TRIMs agreements appear as trade-distorting but it will encourage both trade and investment in developing country like India. India needs technological collaboration and technological growth at home rather than to import. Liberalization policy of the government of India has provided a vital boost to various sectors of Indian economy. However, TRIMs agreements have limitation within its frame work because members are informed to abolish and remove some measures. These may enable developing country like India to open up more opportunities for foreign investment and the agreement has introduce rules of International law in world trade system.

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