

India US Bilateral Trade Agreement

Why in News?

India and USA have agreed to negotiate the first stage of a mutually beneficial, multi-sector Bilateral Trade Agreement (BTA) by the fall of 2025.

What is Bilateral Trade Agreement(BTA)?

- **Bilateral Trade Agreement** - It is a deal between two countries to set the terms and conditions for trade between them.
- **Objective** - These agreements are designed to encourage economic cooperation and remove barriers like tariffs, quotas, or import restrictions.
- **Components of BTA** - These include stipulations governing customs duties and other levies on imports and exports, commercial and fiscal regulations, transit arrangements for merchandise, customs valuation bases.
- Most bilateral trade agreements, either explicitly or implicitly, provide for
 - Reciprocity
 - Most-favoured-nation treatment
 - National treatment of nontariff restrictions on trade.

What is the trade relationship between India and USA?

- **Largest trading partner** - India's was once the largest trading partner of US, accounting for almost \$120 billion in trade.
 - But now China overtakes US to become India's top trading partner in FY24
 - India in trade deficit with nine out of top 10 partners in 2023-24.
 - India and USA agreed to more than double bilateral trade to \$500 billion by 2030, as part of 'Mission 500'.

Largest trading partner for India

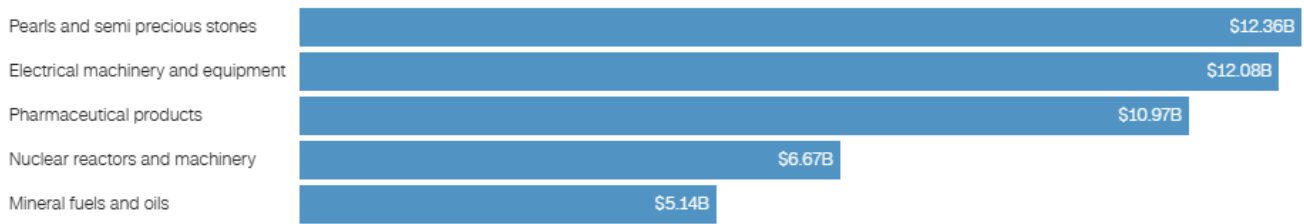
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| 1. | US | \$119.7B |
| 2. | China | \$118.4B |
| 3. | United Arab Emirates | \$83.7B |
| 4. | Russia | \$65.4B |
| 5. | Saudi Arabia | \$43.0B |
| 6. | Singapore | \$35.6B |
| 7. | Iraq | \$33.3B |
| 8. | Indonesia | \$29.4B |
| 9. | Hong Kong | \$28.7B |
| 10. | South Korea | \$27.6B |

Largest trading partner for US

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|-----|-------------|----------|
| 1. | Mexico | \$839.9B |
| 2. | Canada | \$762.1B |
| 3. | China | \$582.5B |
| 4. | Germany | \$236.0B |
| 5. | Japan | \$227.9B |
| 6. | South Korea | \$197.1B |
| 7. | Taiwan | \$158.6B |
| 8. | Vietnam | \$149.7B |
| 9. | UK | \$148.0B |
| 10. | India | \$129.2B |

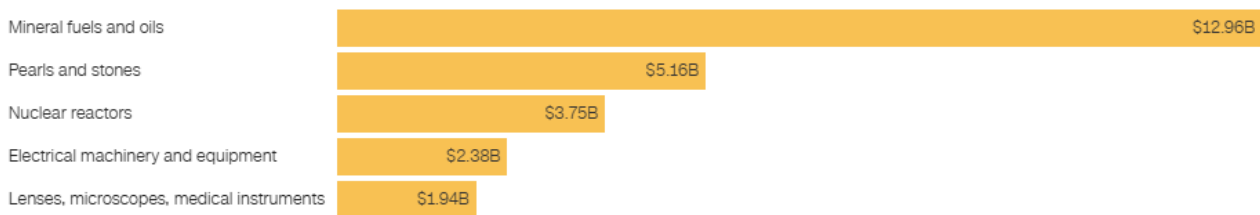
- **India's export to USA** - It is mostly semi-precious stones, electrical machinery , Pharmaceutical products to USA

US' top imports from India in 2023



- **India's import from USA** - India gets crude oil and related products, gems and stones, nuclear reactors and electrical and medical equipment.

India's top imports from the US, April 2023-March 2024



- **Investment** - USA is the 3rd largest investor in India with cumulative FDI inflows of US\$ 65.19 billion from April 2000-March 2024.

What are the challenges in implementing BTA between India and USA?

- **International trade regulations** - A significant portion of international trade law is codified in the General Agreement on Tariffs and Trade (GATT) and governed by the World Trade Organization (WTO).
- Since both the U.S. and India are members of the WTO, their bilateral trade dealings must align with the standards set by WTO law.
- **MFN principle** - The WTO system operates on the most favoured nation (MFN) principle, which prohibits discrimination between trading partners.
- Therefore, an FTA that grants preferential access to certain countries violates the MFN rule.

Countries can still establish FTAs under specific conditions.

- **WTO law** - If India and the U.S. reduce tariff rates on each other's limited products, as part of some bilateral deal, without extending similar treatment to other countries, it would violate WTO law.
- **Inclusion of all trade** - Article XXIV.8(b) of the GATT, requires member countries to eliminate customs duties and other trade barriers on "substantially all the trade" within the FTA.
- Therefore proposed BTA between India and the U.S. must cover "substantially all trade" to be legally valid.

What can be done?

- **Interim agreement** - India and the U.S can notify the agreement as an 'interim agreement', leading to the formation of an FTA.

GATT Interim Agreement

- Article XXIV of GATT permits them to sign 'interim agreements' that pave the way for an eventual FTA, subject to specific conditions
- Under Article XXIV.5 of GATT, countries can enter into an 'interim agreement' if it is necessary for forming a free trade area.
- This 'interim agreement' must include a plan or schedule for establishing an FTA within a reasonable timeframe, which should typically not exceed 10 years.

- **Enabling Clause** -WTO law provides another exception to the MFN principle in the form of what is known as the 'enabling clause'.
- As per this arrangement, WTO countries can deviate from the MFN principle if it is meant to provide better market access to the products of developing countries.
- **Way Forward**
- The proposed Bilateral Trade Agreement (BTA) between India and the USA aims to deepen economic connections and reach the "Mission 500" trade target. Challenges include WTO compliance and trade requirements.
- Solutions involve interim agreements and careful negotiation to address barriers and promote growth for both countries.

References

[The Hindu | An India-U.S. trade agreement](#)

