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'.

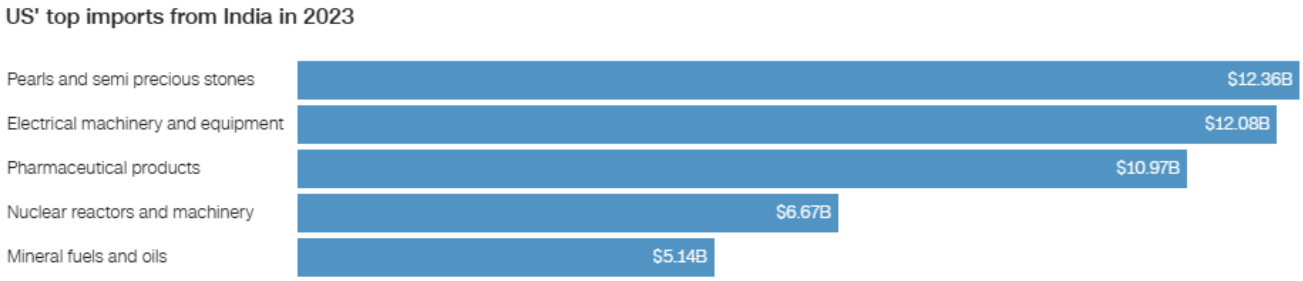
Largest trading partner for India

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

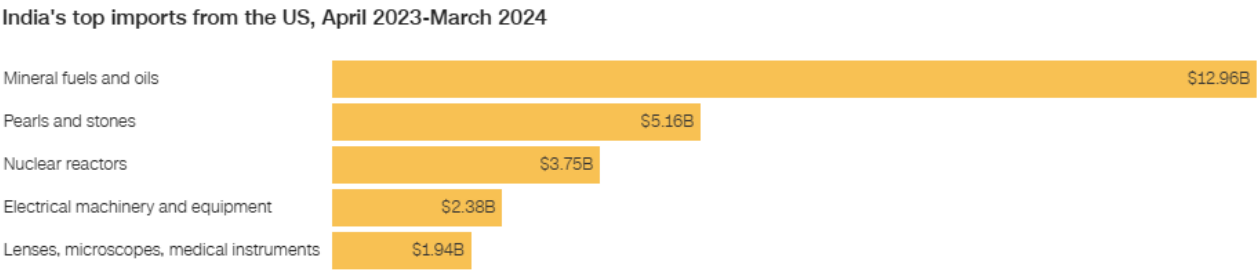
Largest trading partner for US

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



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



- **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 agreemen

SHANKAR IAS PARLIAMENT
Information is Empowering