

Building Bridges

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Building Bridges: India and USA's Journey to a Bilateral Trade Agreement

Context

- India and the **United States (USA)** have agreed to **negotiate the first stage of a Bilateral Trade Agreement (BTA)** by fall 2025.
- The agreement aims to **boost economic cooperation, reduce trade barriers, and enhance investment** between the two nations.
- India and the USA have set a target to **increase bilateral trade to \$500 billion by 2030** under the 'Mission 500' initiative.
- The negotiation comes amid **global economic shifts, geopolitical challenges, and the need for a balanced trade relationship.**

What is a Bilateral Trade Agreement (BTA)?

A **Bilateral Trade Agreement (BTA)** is a **trade pact between two countries** that sets rules for trade and investment between them.

Objectives of a BTA

- **Enhancing economic cooperation** between two nations.
- **Eliminating trade barriers** such as tariffs, quotas, and restrictions.
- **Encouraging foreign direct investment (FDI)** and technology transfer.
- **Ensuring fair competition and dispute resolution mechanisms.**

Key Components of a BTA

A typical BTA includes:

1. **Customs Duties & Tariffs** - Reduction or elimination of import/export taxes.
2. **Regulatory Framework** - Trade policies, fiscal measures, and commercial laws.
3. **Market Access Provisions** - Conditions for goods and services exchange.
4. **Investment Protection Measures** - Ensuring security for foreign investors.

Core Principles in Most BTAs

- **Reciprocity** - Equal trade benefits for both countries.
- **Most-Favoured-Nation (MFN) Treatment** - Extending benefits given to one country to others.

- **National Treatment** - Equal treatment for domestic and foreign firms in trade-related policies.
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India-USA Trade Relations

1. Trade Volume and Trends

- The **USA was India's largest trading partner**, with trade peaking at **\$120 billion**.
- **China overtook the USA as India's top trading partner in FY24**.
- India had a **trade deficit with nine out of its top ten trading partners in 2023-24**.
- Under '**Mission 500**', India and the USA aim to **double bilateral trade to \$500 billion by 2030**.

2. Major Indian Exports to the USA

- **Pharmaceutical products**
- **Electrical machinery and equipment**
- **Semi-precious stones and jewelry**

3. Major Indian Imports from the USA

- **Crude oil and petroleum products**
- **Gems, stones, and jewelry**
- **Nuclear reactors and electrical machinery**
- **Medical and scientific equipment**

4. Investment Relations

- The **USA is the third-largest investor in India**, with **FDI inflows of \$65.19 billion (April 2000 - March 2024)**.
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Challenges in Implementing the India-USA BTA

1. Compliance with International Trade Laws

- **Governed by WTO & GATT** - India and the USA, both **WTO members**, must ensure that the BTA aligns with **WTO and GATT provisions**.
- **WTO's Most-Favoured-Nation (MFN) Rule** - If a country grants preferential trade terms to another, it must extend similar treatment to all WTO members.

2. WTO Law and Limited Tariff Reductions

- If India and the USA reduce tariffs **only on selected products**, they must ensure **WTO compatibility** to avoid violations.

3. Coverage of 'Substantially All Trade'

- **Article XXIV.8(b) of GATT** mandates that FTAs **eliminate barriers on substantially all trade** within the agreement.
- The India-USA BTA must **cover a wide range of products and services** to be legally valid.

Possible Solutions and Way Forward

1. Interim Agreement as a Step Towards an FTA

- India and the USA can **initially sign an 'Interim Agreement'**, paving the way for a **Free Trade Agreement (FTA)**.

Provisions of a GATT Interim Agreement:

- **Article XXIV of GATT** allows interim agreements before an FTA.
- **Article XXIV.5** states that such agreements must include a **clear plan and schedule** for full FTA formation.
- The agreement must be **completed within 10 years**.

2. WTO's 'Enabling Clause' for Developing Nations

- The **WTO's Enabling Clause** allows developing nations to **receive preferential treatment** without violating MFN rules.
- India, as a **developing country**, may **negotiate special access** for its products in the USA.

3. Strengthening Economic Ties

- The **India-USA BTA** should focus on:
 - **Reducing trade barriers** for critical sectors.
 - **Encouraging foreign investment and technology transfer**.
 - **Expanding cooperation in emerging fields** like renewable energy, AI, and semiconductors.

Conclusion

The proposed **Bilateral Trade Agreement (BTA) between India and the USA** is a crucial step toward **strengthening economic cooperation** and achieving the **'Mission 500' trade target**. However, **WTO regulations, trade barriers, and legal frameworks** must be carefully navigated. Through **strategic negotiations and phased implementation**, both nations can establish a **comprehensive and mutually beneficial trade partnership**.

