# Understanding Bilateral Investment Treaties

written by King Stubb & Kasiva | April 19, 2024

Introduction:

Imagine a multinational company investing heavily in a foreign country, hoping to expand its operations and contribute to the local economy. Everything seems promising until political instability strikes, and the host government decides to seize the company’s assets without proper legal procedures. Such situations, though not uncommon, can severely dampen investor confidence and hinder economic growth.

This is where Bilateral Investment Treaties (BITs) step in, providing a framework to protect foreign investments and promote economic stability between countries.



What Are BITs?

BITs serve as essential tools in the international investment arena, encouraging cooperation between nations and safeguarding the interests of foreign investors.

These treaties, negotiated between two countries, establish the terms and conditions for private investment by citizens and companies of each country in the other’s territory. Through BITs, countries aim to create a conducive environment for Foreign Direct Investment (FDI) by providing legal protections and ensuring transparency and fairness in investment-related regulations.

A Look Back:

The evolution of BITs dates back to the mid-20th century, with the first treaty signed between Pakistan and Germany in 1959. Since then, the proliferation of BITs has been remarkable, with over 2500 treaties currently in force worldwide. Recognizing the importance of attracting foreign investment, countries across the globe have actively engaged in negotiating BITs to offer assurances to ivestors and facilitate economic growth.

India’s Journey With BITs[1]:

In the mid-1990s, India embarked on a journey under the guidance of its government to extend favourable conditions and treaty-based protection to foreign investors and their investments. A prime example is the India-Singapore Comprehensive Economic Cooperation Agreement (CECA), which offers exemptions on import duties for investments in the infrastructure sector. Such measures not only attract foreign investors to India’s growing economy but also provide enhanced security against adverse changes, thereby promoting increased investment inflows and facilitating the transfer of technology and modern management practices.

A closer examination of the various BITs to which India is a signatory reveals distinct characteristics unique to each agreement, despite common threads running through them. These shared traits manifest in the form of specific rights designed to shield investors and their investments from unreasonable or inappropriate risks.

Notably, Indian BITs refrain from granting an outright “right to make investments” within India. Instead, all rights conferred by these treaties can only be exercised post-investment. However, this stance warrants discussion, particularly in light of Article 3.1 of India’s Model BIT[2], which pledges to create conducive conditions for investment.

It is imperative to acknowledge that the Indian government retains the authority to determine the sectors open to foreign investments and the terms under which such investments can be made, all of which must adhere to India’s national laws.

- Applicability:
  Indian BITs generally extend to both existing and future investments from the date India enters into the treaty, albeit with some exceptions. For instance, BITs with countries like Egypt, Sweden, and Romania have a narrower scope, applying only to investments arising post-ratification, thus excluding disputes predating the BITs.
- Ensuring Fair & Equitable Treatment (FET) and Full Protection & Security (FPS):
  FET features prominently across Indian BITs, reflecting its fundamental role in ensuring a stable and predictable legal framework conducive to investor confidence. Similarly, the principle of FPS aims to safeguard investments against physical violence or interference, though exceptions exist in certain BITs.
- National Treatment and Most-Favoured-Nation Treatment (MFN):
  While some Indian BITs include National Treatment, ensuring equal treatment for foreign investors compared to domestic counterparts, the inclusion of an MFN clause varies. This clause enables investors to claim favourable rights available to any other state with a BIT, offering both procedural and substantive protection, albeit subject to conditions and restrictions.

- Expropriation:
  These provisions within Indian BITs align with international standards, stipulating conditions for lawful expropriation that must include a public purpose, non-discrimination, due process, and adequate compensation.
  These provisions distinguish between direct and indirect expropriation, with the Indian Constitution covering only direct expropriation under Article 300A, leaving the status of indirect expropriation subject to debate.
- Investor-State Dispute Resolution:
  A pivotal aspect of BITs lies in their provision for investor-state dispute resolution, enabling investors to arbitrate directly against a state without government intervention. While Indian BITs offer arbitration options under UNCITRAL rules or ICSID’s Additional Facility Rules, India’s non-membership in the ICSID convention presents a notable concern, potentially complicating the enforcement of arbitral awards under the New York Convention.[3]

Recent Developments And Policy Shifts:

In recent years, countries like India have undergone significant policy shifts regarding BITs. India, which began signing BITs in 1994, faced challenges when an international tribunal ordered it to pay substantial compensation under a BIT. This prompted India to review its approach to BITs and develop a new model BIT in 2015. Furthermore, India has initiated a process of terminating existing BITs, signalling a re-evaluation of its investment treaty framework and a shift towards a more balanced and protective stance for both investors and the state.

Challenges And Opportunities:

Despite their benefits, BITs also pose challenges, particularly in balancing investor rights with the sovereign regulatory authority of host countries. Critics argue that BITs may unduly constrain governments’ ability to regulate in the public interest, especially in areas like environmental protection and public health. However, proponents emphasize the role of BITs in promoting economic development, attracting FDI, and adopting international cooperation.

Conclusion:

The future of BITs seems to be about finding that sweet spot - ensuring investor confidence while empowering countries to make necessary regulations. As the world gets more interconnected, these agreements will play a crucial role in advancing sustainable economic growth.

Perhaps we can all play a part - by learning more about BITs and advocating for policies that promote fair play for both investors and nations. After all, a stable investment environment benefits everyone in the long run, wouldn’t you agree?

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[1] https://ustr.gov/trade-agreements/bilateral-investment-treaties

[2] https://dea.gov.in/sites/default/files/ModelBIT_Annex_0.pdf.

[3] https://unctad.org/system/files/official-document/webiteiit20052_en.pdf.

King Stubb & Kasiva,
Advocates & Attorneys
Click Here to Get in Touch
New Delhi | Mumbai | Bangalore | Chennai | Hyderabad | Mangalore | Pune | Kochi | Kolkata
Tel: +91 11 41032969 | Email: info@ksandk.com