BIT (Bilateral Investment Treaty): Notes for UPSC Exam

A Bilateral Investment Treaty (BIT) is an agreement establishing the terms and conditions for private investment by nationals and companies of one state in another state. The concept is in the news from time to time.

The details gathered from this article will be of immense use to the candidates writing the IAS Exam this year.

Nature of Bilateral Investment Treaty

Most BITs grant investments made by an investor of one Contracting State in the territory of the other a number of guarantees, which typically include fair and equitable treatment, protection from expropriation, free transfer of means and full protection and security

This type of investment is called foreign direct investment (FDI). BITs are established through trade pacts. A nineteenth-century forerunner of the BIT is the friendship, commerce, and navigation treaty (FCN). Most BITs grant investments made by an investor of one Contracting State in the territory of the other a number of guarantees, which typically include fair and equitable treatment, protection from expropriation, free transfer of means and full protection and security.

Relevant Questions regarding BIT

When was the first Bilateral Investment Treaty Signed?

This process is called investor-state dispute settlement. The world's first BIT was signed on November 25, 1959 between Pakistan and Germany. There are currently more than 2500 BITs in force, involving most countries in the world.

How important are BIT's?

A BIT provides major benefits for American investors in another country, including national treatment, fair and equitable treatment, protection from expropriation and performance requirements for investments, and access to neutral dispute settlement.

How do BIT's function?

Bilateral investment treaty. A bilateral investment treaty (BIT) is an agreement establishing the terms and conditions for private investment by nationals and companies of one state in another state. This type of investment is called foreign direct investment (FDI). BITs are established through trade pacts.

Why have Bilateral Investment Treaties come under criticism?

Many NGOs have spoken against the use of BITs, stating that they are mostly designed to protect the foreign investors and do not take into account obligations and standards to protect the environment, labour rights, social provisions or natural resources. Moreover, when such clauses are agreed upon the formulation is legally very open-ended and unpredictable.

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