INTERNATIONAL INVESTMENT AND ROLE OF NAFTA: CRITICAL ANALYSIS

Pragya Srivastava, Assistant Professor, United University and Yashveer Singh, Assistant Professor, United University

ABSTRACT

This paper critically examines international investment, particularly the role of the North American Free Trade Agreement (NAFTA). International investment is crucial for global economic development, facilitating capital flows, enhancing productivity, and fostering economic cooperation among nations. NAFTA, established in 1994 between the United States, Canada, and Mexico, significantly impacted international investment patterns by establishing one of the world's largest free trade zones. The agreement aimed to eliminate trade barriers, safeguard investors, and promote cross-border investments among member countries.

The study delves into how NAFTA contributed to increased Foreign Direct Investment (FDI) in the region. It provides legal certainty, investor protection clauses, and dispute resolution mechanisms, which attracted investment and boosted economic integration. However, NAFTA also faced criticism for favouring multinational corporations, leading to job displacements and creating socio-economic disparities.

Furthermore, the paper evaluates NAFTA's investor-state dispute settlement (ISDS) provisions. While ISDS provided investor protection, it also posed challenges to national sovereignty. By comparing pre- and post-NAFTA investment trends, the research highlights the advantages and limitations of such trade agreements in regulating international investment.

In conclusion, the paper emphasises the need for balanced investment agreements that protect investors while ensuring equitable development, social justice, and environmental sustainability. The findings are contextualised in light of the transition from NAFTA to the United States-Mexico-Canada Agreement (USMCA).

Introduction

Growing regionalism is an international phenomenon since it has been employed by nations of all sizes to address global issues and trends. Because of the fierce rivalry for international markets and foreign investment, they integrate to avoid falling behind. Additionally, minor states turn to regionalism as a means of increasing their bargaining power and acquiring some degree of political influence on the world stage as a result of the dynamics of multilateral trade negotiations. Trade connections between countries in particular and the rest of the globe have improved as a result of the emergence of regional trading blocs like the Economic Cooperation (EC), North American Free Trade Agreement (NAFTA), and South Asian Association for Regional Cooperation (SAARC), among others.

On the basis of this, the globe has twisted its trade arguments today, an attempt was made to determine which side of the argument is correct. Is free trade for everyone the best option? Is free trade for a select few the best option? Is free markets with a select few the best option? As fascinating as it seems, this is just as intricate and expansive as the Universe. The North American Free Trade Agreement (NAFTA), and its welfare-improving elements on the intra-, inter-, and its potential development into a Western Hemisphere bloc, are the focus of the current study's investigation of Preferential Trading Agreements (PTA). With Canada, Mexico, and the United States as its participants and a cutting-edge policy formulation, NAFTA becomes an important trade agreement because it was the first North South trade agreement This was the most contentious agreement ever negotiated in the era of PTAs, making it an interesting topic for analysis.

As a result of globalisation, which has produced a new kind of international environment, the importance of these economic blocs has multiplied. A trade bloc is a group of countries that have a preferential trade pact in place to drastically lower or eliminate trade barriers among themselves. A trade bloc that consists of countries that are geographically adjacent to one another or that are neighbours is described to as a "natural" trade bloc to emphasise that the privileged trade is between nations that likely have cheap transportation costs or engage in frequent trade. Trade blocs may also involve more extensive integration, such as that of labour, investment, and international competition and monetary policies, as well as the capital market (including the movement of production components). Whether or not a trading bloc has a geographic foundation, the integration of nations within them is generally referred to as "regionalism."

NAFTA is a free trade agreement between Mexico, the United States, and Canada. It became operative on January 1st, 1994. Geographically and in terms of the significance of trade, NAFTA makes sense. The largest bilateral trade relationship in the world is that involving the United States and Canada. The total population of the three trade partners in NAFTA is higher than that of the EU's 15 members. The enormous scale of the US economy in relation to the economies of Canada and the EU is noteworthy when compared to the EU Mexico. Despite having a population that is just around one-third that of Mexico, Canada also boasts a far richer economy. Despite becoming a free trade agreement, NAFTA's protections for services, investment, and intellectual property go beyond the removal of tariffs and non-tariff obstacles. The accord also included a fresh approach to resolving conflict[1]s.

With the help of NAFTA, economic integration has both static and dynamic consequences. For instance, consumers in Canada and the United States profited from cheaper agricultural products coming from Mexico, which is a stable effect of economic liberalisation. Mexican consumers are a sizable and expanding market, which benefits American producers.

As a result of NAFTA, some of the United States' commerce with and developments in Asia have indeed been redirected to Mexico.

NAFTA's most significant component is the idea of local composition (at least 50% of the net cost of the products must originate from NAFTA region) and laws of source (goods and services must originate in North America to have access to cheaper tariffs). Labor and environmental norms have been given special consideration.

Every trade deal has advantages and disadvantages, and NAFTA is no different. NAFTA has considerably increased commerce and investment, but it has also presented serious problems to businesses in regards to wages, investments, labour, and illegal immigration.

The report that follows makes an effort to thoroughly examine the NAFTA.

[1] The United States is a large developed economy; Canada is a medium size developed economy; and Mexico a small developing economy.

Literature Review:

International Investment Law is a mechanism of Public International Law governing investments globally, especially Foreign Direct Investment and Disputes between investors and sovereign states whereas NAFTA (North America Free Trade Agreement) is a Multilateral Agreement regulating the trading behavior and pattern of United States, Mexico and Canada.

The Article titled "*Chapter 20 International Investment Law and the Regulation of Sea Bed"* written by *James Harrison,* has given its insight on International Investment Law framework which was originated in 1950s when states negotiated and demanded protection to invest oversea. The article includes that with the passage of time and development, countries were the signatory to at least one of the Investment Agreement, NAFTA became one of the well-known Investment Agreement.

The Article titled "The *Problems of NAFTA"* written by *Kimberly Amadeo* has taken into account the major weaknesses of NAFTA which primarily impacted Mexican and American workers. Further the Article encompasses that due to certain disadvantages of NAFTA it went into renegotiation in the year 2017 under the President Donald Trump Administration.

The Article titled "*NAFTA and USMCA: Weighing the Impact of North American Trade"* written by *Andrew Chatzky and James McBride* have focused on that how NAFTA contributed to the development explosion of trade in United States, Mexico and Canada. The author also tried to analyze the affect of the Trade Agreement on each country and has taken into the account how the US President Donald Trump called NAFTA as a worst trade deal which made them to renegotiate the deal.

The Paper titled "*Employment, Trade and Foreign Investment Effects of NAFTA"* written by *Calvin B. Siebert and Mahmood A. Zaidi* concentrated their observation on the economic overview of the North American Free Trade Agreement with the opinion that due to free trade there might be increase and decrease of employment if tariffs are eliminated by this trade deal. The authors analyzed whether NAFTA was a trade agreement increasing opportunities regarding export and import od various services and goods or was it an agreement to liberalize the investment behavior or pattern among the three countries.

The Paper titled "*International Trade and Investment in Services: A Comparative Analysis of*

NAFTA" written by *Harry G. Broadman* has taken into the account how NAFTA created a link among the countries, and which turned to be the world's largest and richest Market regulator. The paper discusses the Impact of North American Free Trade Agreement in the service sector like Financial, Transportation and Telecommunication Services etc, further the paper also discusses the objective of NAFTA in the United States Service Sector.

The Article titled "A *Preliminary Evaluation of NAFTA"* written by *C.Fred Bergsten and Jeffrey J. Schott* have analyzed and evaluated the trade pattern and behavior of the countries processing in accordance to NAFTA agreement. The Article expresses the investment flows made subject to the clauses of NAFTA year to year. The author evaluates the aim and objective of NAFTA from the investment flows in the past recent years. The authors are of the opinion that NAFTA has not only drawn an economic structure but has also contributed to the political stability in these economies. Moreover, the authors prepared a report assessing the impact of NAFTA on investment flows and its effect on Foreign Direct Investments. During Evaluation they have also bifurcated the article by sharing their insights on every factor that effects trade in a country to widely understand the role of NAFTA.

The Paper titled "*The North American Economies After NAFTA: Critical Appraisal"* written by *Robert A. Blecker* observed that NAFTA was not a pure trade agreement, the paper discusses that the trade agreement was to eliminate trade barriers to benefit interests of the countries, it did not abolish anti- dumping and countervailing measures of private members as predicted by Mexican and Canadian governments. NAFTA further went on to strongly protect the rights of the private Investors. Lastly, the author was of the view that NAFTA was designed to promote investment flows in the Multi-National Companies and to regulate growth and development of these economies by signing a free trade policy.

The Paper title "*Critical Perspectives on International Investment Law"* written by *Thamil Ananthavinayagan* has tested the critical perspective of International Investment law, the author is of the view that these International investment agreements prepared for trade practices include various goods with non-tariffs barriers for example regarding trade related to health, services etc. So, all these trade practices have made the economic agreements very typical. Further, the author is of the opinion that International Investment Law by its text and interpretation still need to meet certain basic standards to achieve global justice and it should also be in conformity with basic human rights concerning economic rights.

The Paper titled "*NAFTA at 15 Years"* written by *Milos Barutciski* has observed the evolution and need for the North American Free Trade Agreement, about its past and future suggestive developments. The author has also taken into the account the challenges which will be faced by NAFTA as it governs the trade policy of three richest market of the globe.

The Paper titled "*An Overview of the NAFTA Investment Chapter: Substantive Rules and Investor- State Dispute settlement"* written by *Daniel M. Price* has analyzed that to achieve the advantages of economic liberalization all the barriers relating to investment should be taken into consideration. The author has shared its insight on the chapter 11 of the North American Free Trade Agreement which relates to the investment procedure or practice of these three countries. The objectives of this investment chapter as per author was to have a secure environment and free and fair trade for the foreign investors, to eliminate investment barriers and tariffs to liberalize the economic practices among the countries and as Dispute resolution policies always plays and important role being a part of every agreement so there should be an effective resolution process to resolve dispute between investors and the government. Moreover, the paper in its last section contains in detail this effective mechanism to resolve any kind of dispute concerning trade practices.

Objective of the Study

The following are the primary goals of the current study:

- To evaluate India's interaction with NAFTA.
- To clarify the many aspects of the NAFTA's economic support to India.
- Analyze the development, direction, pattern, and structure of trade between India and the NAFTA countries.
- To research and calculate the benefits that both India and NAFTA stand to earn through trade.
- To develop new commercial opportunities, especially in Mexico
- To strengthen American, Canadian, and Mexican businesses' ability to compete on a larger range of international marketplaces

- To help Mexico acquire more foreign currency to pay off its mounting foreign debt
- To strengthen and develop political ties amongst member nations.
- To determine the primary exports and imports with the most potential for trade between India and NAFTA, and so to investigate the study primarily examines the years 1996–1997 through 2009–2011 in terms of future trade potentialities. However, in certain instances we have extended the research beyond or before the designated time-period due to the nature of the available data or statistical considerations.

Research Problem

Does NAFTA a trade Agreement between United States, Canada and Mexico amounts to be beneficial for the countries and to assess its relation with and Foreign Direct Investment?

Hypothesis

In the light of the objective and the research problem stated above the hypothesis which is formed for the paper is: Whether the existence North Atlantic Free Trade Agreement (NAFTA) stands beneficial to all the countries involved in the agreement?

Methodology

The research methodology used in this paper is doctrinal research, which required a thorough literature search that involved scanning a variety of primary and secondary data and information sources, including information from Financial Surveys, publications by the Indian government, particularly the Reserve bank Bulletin, and internet outlets for statistical data. The research's objective was to gather all information on the subject that was available and to critically evaluate it.

North American Free Trade Agreement (NAFTA)

America's attempt to create regional economic unification led to NAFTA.

A free trade agreement was agreed upon by the governments of the United States and Canada in 1988; it became effective on January 1, 1989. By 1998, all tariffs on commerce between Canada and the US were to be abolished, according to the agreement. Talks between the United

States, Canada, and Mexico to create a North American Free Trade Agreement for the three nations took place in 1991 as a result. In 1994, the agreement was enacted into law.

Thus, the North American Free Commercial Deal (NAFTA) is an extensive trade agreement that establishes the laws of investment and trade involving Canada, the United States, and Mexico. Between the three NAFTA nations, the majority of tariff and non-tariff barriers to open trade and investment have been successfully removed. NAFTA is one of the world's major trading regions because it has a population of over 363 million people[2].

Benefits of NAFTA:-

As a result of greater trade and investment since NAFTA's implementation, North America has experienced substantial economic development, the creation of jobs, and better consumer goods pricing and options. Businesses, customers, families, employees, and farmers in North America have all benefited. for additional details on the several advantages of NAFTA.

Greater Trade: Trade increased by three times between the NAFTA signatories, from $297 billion in 1993 to $1 trillion in 2007. (latest data available). U.S. exports to Canada and Mexico increased from $142 billion to $452 billion. From $151 billion to $568 billion, exports from Mexico and Canada to the United States increased. NAFTA gave businesses in member nations the chance to compete for government contracts, which contributed to the growth of commerce. Additionally, intellectual property was safeguarded[3].

Enhanced U.S. Farm Exports: Because NAFTA reduced high Mexican tariffs, farm exports rose. Beef, rice, soybean meal, corn sweeteners, apples, and beans are the biggest exports to Mexico. For corn, soybeans, and oils, it ranks second. The percentage of American agricultural exports to Canada and Mexico increased as a result of NAFTA from 22% in 1993 to 30% in 2007.

Trade surplus produced in services: Services like financial and health care make up more than 40% of the US GDP. Exporting them to surrounding nations is crucial because they are difficult to carry. U.S. service exports to Canada and Mexico increased thanks to NAFTA,

[2] Armando, Garza, M.A. (201 1), Background Information on the North America Free Trade Agreement (NAFTA) University of Texas at San Antonio July, 201 1.
[3] Basu, Suparna and Datta Debabrata (2007), "India-Bangladesh Trade Relatios: Problem of Bilateral Deficit", Indian Economic Review, Vol. XXXXII, No. 1,2007, pp 1 1 1-129

rising from $25 billion in 1993 to $106.8 billion in 2007. (latest data available). Exports of services totaled $40 billion.

NAFTA removed trade restrictions in almost all service industries, which are sometimes highly regulated. Governments must publish all laws under NAFTA, which reduces corporate expenses that are not readily apparent.

Reduced Oil and Grocery Prices: The United States imported shale oil from Canada and Mexico worth $157.8 billion. As a result, the United States imports less oil from Venezuela and the Middle East.Since NAFTA does away with tariffs, oil costs have decreased. Food imports, which totaled $28.9 billion in 2008, are the same.

Increased Foreign Direct Investment: Since the implementation of NAFTA, U.S. FDI in Canada and Mexico has nearly triple to $348.7 billion (as of 2007, latest data available). FDI from Mexico and Canada increased to $219.2 billioNAFTA lowers the risk for investors by ensuring they possess the same legal protections as regional investors. Investors have access to the judicial system through NAFTA in the event that the government nationalises their sector or evicts them from their property.

NAFTA's drawbacks:

NAFTA has a lot of drawbacks. First and foremost, NAFTA enabled it for many American manufacturers to relocate work to Mexico, which has lower labour costs. In order to stay competitive in those markets, the remaining manufacturers cut their salaries.

The second drawback was that a lot of Mexican farmers went out of business as a result of American agriculture subsidies. The labour and environmental protection clauses of NAFTA for Mexico were insufficient to safeguard those workers from exploitation[4].

United States Jobs Lost:

Due to the lower cost of labour in Mexico, numerous manufacturing sectors transferred some of their output from expensive American states. The U.S. commerce deficit with Mexico reached $97.2 billion during 1994 and 2010, costing 682,900 American jobs. (However, since

[4] CEDAR (2012), India Foreign Direct Investment Trends India continues to provide opportunities in a challenging environment US India Business Council.

116,400 of these happened after 2007, the financial crisis might have played a role.) Manufacturing losses accounted for over 80% of all losses. The hardest damaged states were California, New York, Michigan, and Texas because to their huge proportions of the industries that transferred their manufacturing to Mexico. Automobiles, textiles, computers, and electrical appliances were among these sectors.

Pay In America Was Suppressed: Not all businesses in these sectors relocated to Mexico. those who threatened to leave during union organising campaigns. Workers made the decision to keep the factory when given the option of joining the union or losing it. The workers have limited bargaining power absent union assistance power. Thus, wage growth was restrained. Half of all businesses in the sectors going to Mexico during 1993 and 1995 used the threat of factory closure. That rate increased to 65% in 1999.

Farmers in Mexico Were Driven Out of Business: Mexico loses 1.3 million farm employment as a result of NAFTA. Up to 40% of gross farm income was given to American agribusiness as subsidies under the 2002 Farm Bill. Corn and other grains were exported to Mexico at a loss after NAFTA eliminated tariffs. Farmers in rural Mexico couldn't compete. In parallel, Mexico's payments to farmers dropped from 33.2% of total farm revenue in 1990 to 13.2% in 2001. In any case, the majority of such subsidies went to huge farms in Mexico.

Workers in Maquiladoras Were Exploited: NAFTA was widened the maquiladora programme, in which American-owned businesses hired employees from Mexico close to the border to frugally build goods for export to the US. This increased to 30% of the labour force in Mexico. According to Continental Social Alliance, these workers "have no labour rights or health safeguards, workdays stretch up to 12 hours more than, and if you are a woman, you could be forced to take a pregnancy test when applying for a job.[5]"

The environment in Mexico is deteriorating

Mexican agriculture increased its usage of fertilisers and other chemicals in response to NAFTA's competitive pressure, at a cost of $36 billion in pollution annually. The expansion of rural farmers onto more marginal land led to a 630,000 hectare annual rate of deforestation.

[5] Chishti, Sumitra and Bhattacharya B. (1976) "India's Terms of Trade " Economic and Political Weekly, Vol. 11, No. 11 (Nov, 24 2022), pp. 429+431-435

A danger to national security: One of the contentious and problematic The "investor rights" section in NAFTA allows foreign investors who argue that public interest regulations prevented them from making future profits from suing the NAFTA government directly.

The current state of commerce between India and the major regions

To reduce the high levels of poverty that existed in the nation at the time, the socialist approach of state-directed, heavy industry-based industrialization, accompanied by an all-encompassing import substitution policy, financial repression, and complex industrial requirements, was adopted. The production structure was substantially altered as a result of these interventionist development measures. Even while development did accelerate in the second half of the 1970s, the Indian economy was primarily trapped in a downward spiral of slow growth and low productivity. Furthermore, the performance of with the Indian economy falling far short of the planning authorities' goals, the nation lagged behind its East Asian neighbours, like China and Korea, which had roughly comparable amounts of the per capita income at the point of India's independence, in terms of economic development and development[6].

Although some hesitant steps to liberalise and untie the economy through the delicensing of a few industries were made in 1985, these partial and rather ad hoc actions contributed to the development of serious and untenable budget deficits in the Indian economy, especially with regard with regard to growing fiscal deficits. The imbalances followed three consecutive minority governments from 1989 to 1991, a time of extreme political instability and unpredictability. While the Indian economy is fragile the 1990 Gulf War's shock, which was the only reason that drove India to the verge of an international default—something that had never happened in its post-independence history—was primarily home-made. India enrolled in an IMF reform program after entering a serious balance of payments crisis as its foreign exchange reserves fell below US$1 billion in late June 1991, hardly enough to fund a fortnight's worth of imports. As part of the IMF agreement, a number of extensive economic policy reforms in the international, industrial, financial, and public sectors were started in July 1991 in addition to the traditional expenditure switching and cutting programmes. The macroeconomic level appears to have benefited significantly from these reforms. The Indian economy quickly bounced back from the between 1992 and 1998, real GDP grew at an average

[6] Kelkar, V.L. (2001), "India's Reform Agenda: Micro, Meso and Macro Economic Reforms", Fourth Annual Fellows Lecture 2001, Centre for the Advanced Study of India, University of Pennsylvania

yearly rate of 6.4 percent[7]. This was not only a significant improvement over India's past, it was also the second-highest growth rate worldwide, after only China. This in turn may be partially attributed to the fact that post-1991 growth was mostly driven by an increase in private investment and rising national savings, ensuring that there was no major strain on the payments balance situation (compared with the consumption-led growth of the mid to late 1980s).

A description of the Indian economy

India pursued policies after gaining independence from the British Empire in 1947 that aimed to impose government planning over the majority of economic sectors. and worked to encourage some degree of economic independence. The encouragement of government-owned businesses, widespread regulatory control over private investment, and a heavy reliance on barriers to trade and investment to shield domestic businesses from foreign competition were all part of these policies. The overall impact of these policies was to advertise widespread inefficiency throughout the economy (for example, unprofitable state-run firms and a constrained private sector) and to significantly reduce the amount of foreign direct investment (FDI) in India, even though they succeeded in some profit objectives (such as rapid industrialization). In the 1970s, India's real GDP expansion averaged 2.7%, which was quite slow. During the 1980s, incremental economic changes and higher government spending helped raise the real GDP growth rate to an average of 5.7%. (2004) [8].

1991 Economic Recession and Reforms - India experienced a severe economic downturn in 1991, largely as a result of the Gulf War's effects on oil prices, the collapse of the Soviet Union (a significant trading partner and a major source of foreign aid), and a rapid decline in its foreign exchange reserves (primarily brought on by large and persistent state budget deficits)[9]. India's economic crisis compelled the country's Prime Minister Narasimha Rao's Indian National Congress (INC)-led administration to reduce the budget deficit and enact a number of economic reforms, such as significant reductions in tariff and non-tariff barriers, liberalisation of FDI regulations, exchange rate and banking reforms, and a significant decrease in the amount of government oversight over private sector investment (by removing licencing

[7] Rajan,S. Ramkishen and Sen Rahul (2001), "Trade Reforms in India Ten Years On: How Has It Fared Compared To Its East Asian Neighbours?" Centre for International Economic Studies Discussion Paper No. 0147.

[8] Morrison Wayne and Kronstadt Alan (2005), "India-U.S. Economic Relations" CRS Report for Congress RS21502

[9] Mazumdar Surajit (2010) "India's Global Powerhouses: How They Are Taking on the World (review)" Enterprise & Society Volume 11, (Nov 23, 2022, 4:30 PM) pp. 867-869.

requirements). In the middle of the 1990s, as a result of these changes, FDI flows to India increased significantly (annual FDI increased from roughly $100 million in 1990 to $2.4 billion by 1996; more than one-third of this FDI was invested by U.S. investors). However, reform initiatives stalled during the fragile alliances of the mid-1990s. Further dimming the economic prospects were the Asian financial crisis of 1997–1998 and U.S.–imposed sanctions against India (due to its nuclear test in May 1998). After the 1999 legislative elections, the new Bharatiya Janata Party (BJP)-led administration, under by Prime Minister Atal Vajpayee, started implementing second-generation economic reforms, which included significant deregulation, privatisation, and tariff-lowering initiatives. Real GDP growth was 5.6% on average during the 1990s[10].

Economic Indicators for India and NAFT A Countries

However, there are many ways in which the industries of the two nations differ. First, the American economy surpasses that of India, Mexico, and Canada. The United States' real GDP growth rate (1.5%) is the lowest among its NAFTA peers, Canada (2.2%) and Mexico (3.8%), even though its gross domestic product (GDP) is far higher than those of Canada, Mexico, and India. India has the highest real GDP growth rate of 7.8%. NAFTA gives its member nations access to a sizable market for their exports, but it has also boosted import competition for small-scale enterprises. India, Mexico, and Canada all have lower per capita GDPs than the United States. However, since 2003, the United States' growth rates have outpaced those of Canada. The Canadian officials are concerned about the continuing (and rising) per capita income inequality because it casts doubt on the country's productivity and competitiveness.

India and NAFTA

The second-largest trading group in the world is NAFTA. There have been many ups and downs in the NAFTA's trade and economic relations with India. In 2009–10, India contributed only 1.30 percent of NAFTA's sales and 1.20 percent of its imports, compared to NAFTA's corresponding shares of Indian exports and imports of 11.89 and 7 percent for the same period. The United States is not only one of NAFTA's largest trading partners with India, but it also significantly contributes to the diversification and expansion of commerce within the India's NAFTA region.

[10] Kronstadt, Alan. K. (2005), "India-U.S. Relations" Congressional Research Service, Order Code IB93097

Business Relationships

Foreign Investments All economists are interested in the movement of financial and capital resources across national boundaries. Trade, bilateral and multilateral aid, grants, loans, portfolio investments, and foreign direct investments are just a few of the many ways that international capital flows. Each type of capital flow has a distinct role in the process of a country's economic development and differs from the others in terms of the costs and advantages it brings to the two countries concerned. The both inflow and outflow of FDI have recently attracted renewed interest on a global scale. The government and private flows of foreign money into emerging economies can be roughly separated.

Government Flows In official flow, we mean the public help provided by non-governmental organisations (NGO's), as well as the bilateral, multilateral, and private support given by these organisations, although only public aid is counted in official statistics. All actual resource transfers between nations should, in theory, be covered by the notion of foreign aid. Therefore, the definition of foreign aid that is currently in use and acceptance incorporates all formal grant funding and subsidized loans, whether in cash or in kind, that are generally intended to transfer assets from developed to less developed nations on the basis of development or income distribution. Individual fluxes Private investment portfolio and direct investments from abroad make up the majority of private flows.

Investment in portfolio foreign investments make up portfolio investments of the LDCs' bonds, certificates of deposit, stocks (equity), and commercial papers. From the perspective of the investor, participating in the stock markets of developing nations enables them to reduce their risk while increasing their rewards. Private portfolio flows in the local stock exchange are potentially a beneficial source of funding for domestic businesses from the standpoint of the receiving LDC.

Direct foreign investment a major component of international private investment is foreign direct investment. It is a type of cross-border investment that is undertaken by a person who lives in one country (the direct player) with the intention of acquiring a long-term stake in a company (the private investment enterprise) that is located in a different country than the direct investor (IMF). It might also consist of trade credits, loans, and even parent company guarantees of subsidiary loan are all examples of ways that foreign direct investment (FDI) can be transferred from parent company in home nation (country from which FDI originates) to subsidiary in host nation (country into which FDI flows)[11].

This knowledge transmission, according to Johnson (1970)[12], is what makes the private investment process work. FDI is beneficial to the growth of the countries because of the potential for technology transfer rather than just the simple cash flow.

Global Foreign Direct Investment Inflows

Most developing nations had a negative view of FDI up to the late 1970s [13]. Developing nations' "baby industries" must be shielded against MNCs, according to the goal implemented a variety of regulatory laws and industrialization decrees (trade restrictions and onerous investment criteria) with the goal of regulating FDI flows and reducing the perceived harm they pose to native businesses. Between 1991 and 2000, the international policy landscape saw a more striking transformation[14]. Some positive policy stances that were eventually developed to provide more favourable conditions for foreign investors later replaced some of the aforementioned trade barriers. For instance, in Asia, China started its liberalisation in 1979, and in the 1980s, Singapore, South Korea, Indonesia, and other nations in the region followed.

Benefits of trade

Trade benefits in economics relate to the net gains that agents experience as a result of enabling more free-will trading amongst them. It is, technically speaking, the rise in consumer surplus plus producer surplus as a result of reduced tariffs or other trade liberalisation measures. It frequently happens as a result of production specialisation brought about by labour division, economies of scale, scope, and agglomeration, as well as the relative availability of resource factors in different output kinds by farms, firms, locations, and economies. Additionally, it arises from an expansion of the potential for all production, and finally, profits are produced through market exchanges between outputs of one type and outputs of higher value. It has been commonly contended since Adam Smith's The Wealth of Nations was published in 1776 that,

---

[11] Ragazzi Georgio (1973), Theories of Determinants of FDI, IMF Staff Papers 20, 98.

[12] Johnson harry G. (1970) "The Efficiency and welfare Implications of the International Corporation A symposium", ed. Charles P. Kindleberger, The MIT Press, 35-56

[13] Easson, A. (2001), "Tax Incentives for Foreign Direct Investment Part I: Recent Trends and Countertrends", Bulletin for International Fiscal Documentation, 55: 266-274

[14] UNCTAD (2001), World Investment Report 2001: Promoting Linkages (Geneva and New York: United Nations).

Such gains are advantageous in shifting toward free markets and far from autocracy or outrageously expensive import barriers when there is competition and no market distortions. However, the trading partners or countries may or may not split these advantages equally. Gains are expressed in trade terms. It is necessary to compare the cost of production in domestic and foreign markets in order to determine the benefits of trade. However, it is very challenging to learn about domestic country's production costs and imports. To measure the benefits of trade, the conditions of market method is therefore preferred.

Trade possibilities

Trade potential is the amount of commerce that could be accomplished at the ideal trade frontier with frictionless and open trade given the state of commerce, transportation, and institutional technology today, it is either the highest level of trade that is currently possible or one with the fewest trade-related obstacles. Earlier researcher have calculated the discrepancies between observed values and the expected predicted values by applying the gravity model through OLS estimates as prospective commerce between two countries. The OLS estimating method generates estimates that correspond to the data set's centre values. Potential trade, however, refers to unrestricted, free trade.

Therefore, it makes sense for policy-making purposes to characterize possible trade as the maximum commerce that can happen among any two Given the factors that influence trade, countries that have loosened trade restrictions the most. As a result, estimating potential trade calls for a method that depicts the data's upper bounds rather than its centred values[15].

The actual trade that has been realised is determined by the institutions and restrictions that are in place now along with the degree of current trade determinants. As a result, there is a discrepancy between potential and real trade, which would be directly tied to a number of institutional and socio-political issues that prevent actual commerce from expanding to the production frontier's upper limit. Countries could participate in bilateral and international activities to try to limit or at least moderate the effect by recognizing the trade potential of the trade growth-restrictive regulations already in place. Therefore, each nation's goal is to endeavour to realise its proper trade capacity through dialogue or even by unilateral measures. Given these potential benefits, nations are eager to liberalise their economies through bilateral

[15] Kalirajan, K., 2007, 'Regional Cooperation and Bilateral Trade Flows: An Empirical Measurement of Resistance Model', The International Trade Journal, 21 (2).

and international processes so they can benefit from trade and globalisation. To begin the engagement process, each nation must understand its full trading potential with other nations or other regions[16].

Conclusion

A total of Rs. 4,84,761.2 crore in economic assistance was authorised for India, of which 82.40 percent was used between 1951 and 2011. While the amount of economic aid authorised by NAFTA for India was Rs 7,030.5 crores, 83.55 percent of it was actually used, which was higher than average. Grants made up 42.30 percent of the authorised help, while loans made up 57.70 percent. The USA authorised external assistance has a higher utilisation rate than Canada among NAFTA countries, at 86.21%. Grants outweighed loans in the case of economic aid from Canada, whilst from the USA, shares of loans outweighed grants. The primary goal of the aid that Canada approved was for India's economic prosperity. Additionally, aid was given for dietary and technical needs. The United States gave economic growth, health, the environment, energy, and disaster management a priority while providing help.

Inflows of direct foreign investment to India increased from Rs 174 crores in 1990–1991 to Rs 138462 crores in 2010–2011. However, this level of FDI was lower than that of 2009–2010, which was affected by global causes. With 40.60 percent of all FDl bound for India from 1991 to 2011, Mauritius was the biggest source of FDl imports into India. Second place goes to the USA with 11.94%, followed by Canada and Mexico at 25 and 66 positions with 0.27 and 0.005 percent shares, respectively. The service sector's (23%) and chemical industry's (3%) respective sectoral shares of the total FDl are at their highest and lowest levels, respectively.

In 2000, FDl outflows from India totaled US$ 0.5 billion, but by 2010, they had climbed to US$ 14.8 billion. Between 1996 and 2002, the top two countries for Indian FDl were Russia (23.8%) and the USA (20.5%). However, from 2002 to 2009, the majority of Indian FDI went to Singapore (20.8%) and the USA (7.4%), dropping to the 6 position from the previous 2 rank between 1996 and 2002. Manufacturing accounted for the majority of Indian FDl going abroad (7.4%). NAFTA's FDl has been accepted in India from Rs. 1,907.1 million in 1991 to Rs. 67,948.19 million in 2010. Over the course of 20 years, it climbed by roughly 35 times.

[16] Lederman, Daniel, Olarreaga Marcelo and Rubiano Eliana (2007), "Specialization and Adjustment during the Growth of China and India: The Latin American Experience" Policy Research Working Paper 4318 The World Bank Development Research Group Trade Team August 2007.

Following the signing of an MOU with India, Mexico's share significantly rose. The total amount of foreign direct investment (FDI) obtained by Indian from 2000 to 2011 was US$ 143.18 billion, of which the US contributed 6.84 percent, Canada 0.24 percent, and Mexico a tiny amount. The service industry was the primary destination for stock inflows from the United States (21.74%) and Canada (38.29%).

In comparison to her overall international trade, India's commerce with the NAFTA increased more quickly. However, the pace of increase for imports was substantially higher than that for exports. exports. India's trade balance was negative for both NAFTA and global trade, but for NAFTA specifically, it was negative until 1990–91; after that, from 1990–91 onwards until 2010–11, it remained in India's favour solely. With NAFTA, the value of the trade imbalance was found to be less than that of India's total foreign trade. In total, India's exports were enough to cover more than 68% of the bill for imports, but under the NAFTA, exports exceeded imports in 2010–2011. The United States was the NAFTA's main trading partner. India's exports to NAFTA were limited to eleven products, including melons, peel from citrus fruit, edible fruit, and nuts.

Travel accessories, handbags, and similar items; leather goods, saddlery, and harness. articles made from animal gut, excluding silk worm gut. carpets and other floor coverings made of textile. knitting or crocheted clothing items and accessories, Garment items and accessories that are neither knitted or crocheted, Natural or artificial pearls, valuable or semi-precious stones, precious metals, and items made of precious metals are imitations. Jewelry, iron or steel objects, boilers, machinery, and mechanical devices, as well as their parts, organic chemicals, and cotton.Many of these commodities, including rugs and other fabric floor coverings, found a sizable market thanks to the NAFTA. knitting or crocheting clothes items and accessories. clothes and accessory items that are neither knitted or crocheted items made of iron plus steel. Organic chemicals, plastic, and items produced of it made up the 10 commodities that India imported from the NAFTA. Pearls, whether real or cultured, precious or semiprecious, precious metals, as well as items made of precious metals and imitations thereof. Jewelry and money steel and iron. Boilers, equipment, mechanical devices, and their parts, including nuclear reactors. Aircraft, spacecraft, sound recorders and reproducers, televisions, image and sound recorders and reproducers, electrical machinery and equipment, and parts thereof Precision optical, photographic, and cinematographic measuring. Instruments or equipment used in medicine or surgery, as well as their parts and accessories. Fertilizer, some specific purposes, and project materials. The trading pattern with NAFTA was consistent with India's broader pattern of foreign commerce, which was defined as trade between affluent and poor countries.

Among the NAFTA nations, the United States was judged to be the most steady or low levels of instability, while Mexico had the highest levels.

Impact on policy:

The policy implications resulting from the current study are briefly discussed in this part and are as follows:

1) Our study's findings showed that just a small portion of the authorised aid was used, so India needs to use the authorised assistance granted to her more quickly. For the purpose of preventing cost growth and the needless payment of commitment fees, all bottlenecks—internal or external—must be eliminated. The level of utilisation of Canada's economic support inside the NAFTA needs to be raised.

2) The two-way interactions Although relations between India and NAFTA, particularly with the USA, are usually excellent, there are a variety of economic and trade challenges that are of varied degrees of significance. The protection of intellectual property rights, trade in dual-use technology, access to specific Indian markets, and India's membership in the US Generalized System of Preferences (GSP) programme are the concerns that the US considers to be more urgent. The discussions for a bilateral economic treaty (BIT), U.S. limits on the trade in services (particularly the scarce supply of Hl-B visas), controls on the export of high-tech goods, and the U.S. farm subsidy programme are the main concerns for India. The decision-makers would need India to take additional measures to open its economy to NAFTA in order to fully realise the possibilities of bilateral collaboration between the two countries a variety of tariff and nontariff obstacles will be removed, and limitations on foreign direct investments in the retail, insurance, and defence sectors will be lifted. Similar to this, the US has to lower obstacles to commerce and investment coming from India and promote easier professional travel between the two nations. India must be prioritised highly in the US's economic agenda and seen as a key partner.

In order to increase their bilateral commerce, India and NAFTA members are encouraged to take advantage of their latent trade potentialities, according to our analysis of Indo-NAFTA trade possibilities.

4) As a functional democracy with a sizable share of the workforce under the age of 30, India offers a great investment environment for the export industry. However, the nation is lacking the resources and management know-how for major manufacturing initiatives. By targeting Asian countries from India and integrating India into the wider global value chain, American businesses may close the investment gap. Indian manufacturing facilities should be investigated by American businesses, and appropriate investments should be made. Even while manufacturing is now a popular area for American investments, this is primarily done to target home rather than international markets.