For developing countries, foreign direct investment (FDI) can be a great opportunity, both for immediate employment and for long-term acquisition of skills and technology. But the advent of the knowledge economy can today undercut the labour cost advantage traditionally held by developing countries in a globalized system of industrial location. Where technological improvements have made labour costs an insignificant proportion of the cost of production, there have been examples of "relocation back north." In 1993, for instance, the Canadian high-tech company Mitel "surprised everyone...by moving production of handsets out of Asia, where labour can be 10 to 20 times cheaper...back to Kanata [Ontario]... [because] labour has become such a small part — less than five per cent — of total manufacturing costs."[12]

But developing countries are not simply doomed to lose this crucial competitive advantage; rather they will have to supplement it with human resources upgrading in order to preserve their labour cost advantage. In most cases today, it is no longer simply cheap labour that attracts investment. Rather it is the acquisition of various specialized or medium-level skills combined with a functioning economic infrastructure and some labour cost advantage that works best. For example, India has become a major exporter of computer software, based on the third-largest pool of software programmers in the world.[13] The country now employs some 300,000 people in this industry.

In 1990, foreign investment in developing countries totalled $32 billion — more than half the size of official aid — and it continues to grow. If political stability and congenial economic policies were more universal, no doubt the Third World share of the $184 billion world market for FDI

12 *Ottawa Citizen*, March 4, 1993.

13. Bissell, Richard E., "Who Killed the Third World?" *The Washington Quarterly*, Autumn 1990, p. 28.