

investment in Mexico could also improve access to high-quality resources that could be used as inputs into the U.S. investor's production process.⁹

Public opinion of ODI is influenced by a country's macroeconomic situation and political factors. For example, following the entry into force of the Canada-U.S. FTA, the media began an "employment watch" which focussed on ODI and "resulting" plant closures and job losses in Canada. Since it is more difficult to recognize employment created or preserved by ODI, public concerns can be influenced by a highly visible, presumed negative result of policy. Also, a country's level of unemployment can influence the visibility of ODI policies. Public concern over ODI in countries at or near full employment is likely to be lower than in countries with higher unemployment rates. In countries with high rates of unemployment, there is a fear that ODI will reduce the level of potential employment and employment growth. Structural adjustment, such as can occur with the changing skill mix of the labour force due to ODI, will be more difficult to weather, politically and economically, the further away the economy is from full employment. Due to the current high rate of unemployment in Canada, and concern about its structural component, the public may have fears about policies which facilitate ODI.

Policies that either facilitate or discourage ODI, whether based on the assumption of it being a substitute or complement for domestic employment, should take into account the cyclical nature of economic growth and employment. Pro-cyclical policies should be avoided. In countries with tight labour markets, it could be argued that ODI, acting as a substitute for domestic economic activity in the short term, may ease labour market conditions and inflationary pressures. Alternatively, if ODI is considered complementary to domestic economic activity, it could be seen as contributing to overly tight labour market conditions. Thus, whether ODI is considered to be beneficial for the domestic economy is dependent upon assumptions about its complementarity or substitutability, current labour market conditions and the structure of unemployment.

⁹Various empirical studies have attempted to quantify the employment effects of the NAFTA (e.g., United States International Trade Commission, *The Likely Impact on the United States of a Free Trade Agreement with Mexico*, USITC Publications 2353 (February 1991) and D. Brown, A. Deardorf, et. al., *An Assessment of Extending NAFTA to Other Major Trading Countries in South America*, 1994). These studies generally conclude that the agreement will have positive, but small, employment effects. Empirical studies have not been able to identify how the NAFTA will alter ODI specifically, or to estimate the indirect employment effects of such changes.