

implications for the home economy. This is the role of job preservation, as opposed to job creation.

ODI also affects different industries differently. Financial and non-financial industries are an example of where differences in effects would be expected. Within manufacturing, there would also be a wide range of employment effects of ODI, due to differing industrial and even firm-specific structures. For example, ODI which occurs in sectors characterized by relatively non-tradeable goods, such as the newspaper industry, would not substitute for domestic investment and employment the same way ODI in tradeable goods might. Moreover, employment effects have also been shown to be country specific. Since the effects of ODI on home country employment are very industry specific and also vary greatly intra-industrially among countries, generalizations are cautioned against as potentially misleading. Policy should not be based on overly-generalized conclusions or studies of effects in other countries.

Policy Implications

There is a lack of empirical evidence indicating whether ODI complements or substitutes for trade, domestic production and domestic employment. Much of the available analysis, in any case, concludes that there are only small aggregate effects of ODI on domestic employment.⁸ Therefore, strong policy guidelines based on the acceptance of specific sets of assumptions about the ability of ODI to create jobs (or to terminate jobs) may be imprudent.

The net employment effects of ODI depend upon how individual investors behave, as well as upon how much ODI contributes to economic growth in the foreign country and the trading relationship between countries. This issue received wide attention with respect to U.S. investment in Mexico as a result of the NAFTA negotiations. The assumptions were that increased U.S. investment in Mexico would result in increased exports of U.S. capital equipment and intermediate products. Moreover, increased U.S. and foreign investment in Mexico would stimulate Mexican economic growth and import demand, thus increasing U.S. exports to Mexico. U.S.

⁸For example, a recent OECD study concerning the employment effects of foreign investment in the U.S. found that there was little or no adverse effect of ODI on employment. S. McGuire, *Foreign Direct Investment, Trade and Employment in the United States*, p. 7.